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**THESIS**

**SANCTIONED STATE:  
THE EFFECTS OF INTERNATIONAL SANCTIONS  
ON IRAN'S INTERNAL POLITICS**

by

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June 2012

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THE EFFECTS OF INTERNATIONAL SANCTIONS ON IRAN'S INTERNAL  
POLITICS**

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## ABSTRACT

Iran is a clear obstacle to U.S. hegemony in the Middle East. Iran has embraced a balancing role to the United States, and has survived (and even thrived) in spite of heavy international pressure to adhere to international norms. This international pressure is largely directed against Iran's lack of transparency in regard to its nuclear program. Iran has faced unilateral U.S. sanctions since the 1979 Islamic Revolution. One of the arguments in favor of imposing sanctions on states outside international norms is the desire to effect change upon the targeted state. This thesis explores the relation between sanctions imposed on Iran, the rise of the Iranian reform movement and the resurgence of conservatives. By exploring the relationship between the aforementioned variables, this thesis seeks to make a determination as to what effect sanctions had on Iran's internal politics and industry, with particular focus on Iran's reform movement and subsequent conservative resurgence.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

DIO	Defense Industries Organization
E. O.	Executive Order
E.U.	European Union
IAEA	International Atomic Energy Agency
ILSA	Iran-Libya Sanctions Act
IMF	International Monetary Fund
IRGC	Islamic Revolutionary Guards Corps
UAE	United Arab Emirates
U.S.	United States
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

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## I. THESIS INTRODUCTION

### A. MAJOR RESEARCH QUESTION

The question of the effectiveness of international sanctions against Iran is widely addressed in modern international relations and political science academia. As sanctions play an ever-increasing role as a foreign policy instrument of the United States, there is a growing need to understand fully the wide-ranging effects that sanction regimes have on the target nation. Did international sanctions affect Iranian domestic politics, bringing about the political reform movement of the 1990s and the subsequent conservative resurgence? This thesis seeks to examine the impact of sanctions on Iran's domestic politics, with particular emphasis on Iran's political reform movement and the resurgence of hardline domestic political elements during the period from the 1997 election of President Khatami to the 2005 election of President Ahmadinejad.

Since the 1979 Iranian Islamic Revolution, the United States has not enjoyed regular diplomatic relations with the Islamic Republic of Iran (Iran). Shortly after the seizure of the American Embassy in Tehran, sanctions have been in effect by the United States against Iran.<sup>1</sup> The battle between Iran and the United States has been waged by proxy through the Iran-Iraq War, Iranian support for regional terrorist organizations, and international diplomatic marginalization of Iran by the United States. This thesis will explore the rise and fall of the Iranian reform movement and the connection between international sanctions and resurgent conservative factions in Iran that led to the failure of the Iranian reform movement.

### B. IMPORTANCE

#### 1. Iran's Regional Significance

The Islamic Republic of Iran is a key actor in the Middle East due to its vast territorial and demographic size, influence with Shi'ite populations in the Middle East, and important petroleum reserves. Sitting astride a geo-strategically important location,

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<sup>1</sup>Ervand Abrahamian, *A History of Modern Iran* (Cambridge, UK: University Press, 2008), 168.

Iran has been able to exert influence beyond its size due to its potential to upset the Middle East. As the only Shi'a-ruled and only theocratic state in the region, Iran's intentions are difficult to assess due to a lack of transparency and behavior deemed contrary to international norms in regard to its nuclear program, support for organizations designated as terrorist in nature, and dedication to spreading its Islamic Revolution.

Historical Arab distrust of Persian interests and Sunni distrust of the Shi'a add to regional discord as Iran's majority Shi'a population majority puts it at odds with the rest of the Muslim world, including its nearest neighbors. Fearing internal discord from their own Shi'ite populations, Arabian Gulf nations like Saudi Arabia and Bahrain keep constant vigil on Iran and its foreign/domestic politics. Fearing growing Iranian military might, those same Arabian Gulf nations have increasingly turned to the United States to balance against Iran with Middle Eastern states purchasing US military equipment, hosting U.S. military missions, and hosting U.S. military forces.

For the United States, Iran is of particular interest both regionally and internationally given Iran's support for regional terrorist organizations, lack of transparency of its nuclear programs, and Iran's involvement in regional nations - especially Iraq and Afghanistan during the continuing conflicts. Our interest in Iran is multi-faceted and in light of the multiple levels of interest, the United maintained sanctions against Iran since the 1979 Islamic Revolution and has assumed the role of chief policeman in monitoring Iran's affairs, which has in turn led to increased tensions and distrust between the United States and Iran.

## **2. Iran's Worldwide Significance**

Globally, Iran is an important factor in the Middle East's regional economy and the international economy. Blessed with large oil reserves, the Islamic Republic is a large exporter. Fortunately, for its ideological opponents, Iran does not have enough leverage in the world energy market to seriously influence supply or demand, in spite of

its position as the fourth largest exporter of crude oil.<sup>2</sup> However, Iran's influence within the Organization of Petroleum Exporting Countries (OPEC) and its proven hydrocarbon reserves give Iran significant influence both in the Middle East and internationally.

Aside from energy resources, Iran has significant international importance due to its approach to its nuclear program. Iran maintains that its nuclear program is for peaceful purposes, but is not transparent in its reporting to the IEA leading to distrust of Iranian intentions. Iran's failure to comply to with the Nuclear Non-Proliferation Treaty (NPT) has brought significant international sanctions against Iran from the United Nations and from the United States and EU.<sup>3</sup> Seemingly embracing the role of an outsider, Iran has maintained an aggressive posture in its stance regarding the Iranian nuclear program and has assumed the role of international maverick.

### **3. Academic Importance**

American relations with Iran have been decidedly negative since 1979. Much has been written about sanctions and their effectiveness in the Iranian case study; however, I feel there is insufficient research on the effects of sanctions on Iran's domestic politics, particularly the rise and fall of the reformist movement and rise of Iranian hardline/conservative element. As economic and political sanctions constitute a significant portion of the United States' efforts towards dealing with "rogue" nations, it behooves academia to study the complete effects of those sanctions. The question regarding sanctions on Iran and their effect on Iran's domestic political situation warrants examination due to the critical role that Iran plays in the Middle East, United States foreign policy with both Iran and potential future application, and a broader understanding of the effects on sanctioning non-normative states. This thesis' ultimate goal is to add to the knowledge of the overall effectiveness of sanctions and of the sanctions against Iran in particular.

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<sup>2</sup>CIA World Fact Book, *Country Comparisons: Oil - Proved Reserves*. January 1, 2010. Accessed November 10, 2011. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html>.

<sup>3</sup>*Security Council Imposes Sanctions on Iran for Failure to Halt Uranium Enrichment, Unanimously Adopting Resolution 173*. UN Security Council 5612th Meeting (December 23, 2006). Accessed November 15, 2011. <http://www.un.org/News/Press/docs/2006/sc8928.doc.htm>.

### C. PROBLEMS AND HYPOTHESES

Any research involving Iran is a difficult undertaking due to the lack of transparency in government. While Iran has active journalism, at first glance, that journalism is generally anti-Western although Iranian journalism remains an excellent source of open-source information. Although Iran is a relatively modern nation, academic and intellectual freedom in Iran appears to be at odds with Iran's theocratic makeup. Information on Iran's economy, domestic politics, and even government structure is difficult to come by due to lack of transparency. That lack of information combined with the opacity of Iranian academia leaves large gaps in public knowledge regarding Iran in general. As a result, Western information on Iran must be developed largely from an external points of view relying largely on information gleaned from open source reporting, academic modeling based on facts and figures released by Iran, the knowledge of Iran experts, and what little Iranian scholarly work that is disseminated abroad.

This thesis will be evaluated in the context of deductions made from all the empirical evidence gathered from the aforementioned sources. This thesis will first examine the rise of the reform movement within Iran and then examine the reform movement's decline, attempting to link that decline with the reemergence of Iranian domestic hardline/conservative elements given fresh life by the effects of international sanctions. This thesis will examine a number of hypotheses:

#### 1. HYPOTHESIS #1:

**Sanctions against Iran did not significantly affect the rise of the reform movement, but created the economic framework by which hardline elements would later gain power**

The development of the Iranian reform movement in the 1990s was not a direct consequence of sanctions, as sanctions against Iran at that time were unilaterally imposed by the United States and not decidedly effective due to lack of enforcement capability. However, the economic sanctions did predominately target the military-industrial complex creating a domestic Iranian demand for domestically produced military

products. Conservative elements within Iran, namely the Iranian Revolutionary Guard, capitalized on that demand by securing footholds in the economic development of the Iranian economy that would develop into political power.

## **2. HYPOTHESIS #2:**

**Conservative elements within Iran’s governmental structure conducted internationally unacceptable behavior, seemingly tempting additional sanctions that could only serve to strengthen conservative centers of powers**

Threatened by the surging reform sentiment, conservative elements within the Iranian political system continued and even increased investment in both terrorist organizations and its nuclear program. Not only did these efforts undermine reformist efforts to liberalize Iran’s political structure but also increased international displeasure with Iran and brought about renewed sanctions. Additionally, conservative elements, like the IRGC, Shi'a clergy, and Supreme Leader-appointed institutions, reinforced their hold on their remaining centers of power. The perception is thus created that Iranian reactionaries intentionally sought to widen the ideological rift between Iran and the West.

## **3. HYPOTHESIS #3:**

**Sanctions discredited Iranian reformers’ attempts to increasingly “westernize” Iran’s political structure, leading to conservative backlash**

In the wake of Khatami’s election as President of Iran in 1997, there was an easing of American sanctions.<sup>4</sup> After an initial period of détente, it became increasingly apparent that Iran was still supporting terrorist organizations and possibly pursuing nuclear weapons—issues pressed forward by the conservative elements within Iran’s domestic politics which reformers were either unwilling or unable to curtail due to the political structure of Iran and the primacy of the clerics. So with the election of George W Bush, the sanctions were fully reinstated. With the reinstatement of the sanctions and increased scrutiny by international agencies into Iran’s affairs, especially its nuclear

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<sup>4</sup>Abrahamian, *A History of Modern Iran*, 189.

program, reformers lost prestige amongst both the population and the clerics who ultimately rule in Iran. This loss of confidence in the reformist cause ultimately led to its downfall.

#### **D. LITERATURE REVIEW**

The issues of sanctions against Iran and the rise and fall of the progressive movement in Iran have individually been dissected intensively since each subject came to the forefront of discourse regarding Iran. However, scholars tend to evaluate the effects of the sanctions in terms of their effectiveness in altering undesirable state behavior, not always paying close attention to the effects of sanctions on the internal domestic polity of the sanctioned nation.<sup>5</sup> Similarly, academic coverage on the Iranian progressive movement and the conservative resurgence is not widely evaluated in the context as results stemming from sanctions. This literature review will survey several of the prominent scholarly works regarding the historical effectiveness of sanctions in multiple cases studies, effectiveness of sanctions on Iran and the Iranian progressive movement and subsequent conservative resurgence in order to establish that a gap exist in the scholarly knowledge linking the two issues together.

In evaluating the effectiveness of sanctions and how they can affect a country's internal politics, several case studies have extensively proven the worth of sanctions. However, this review will focus on Libya, Iran, and South Africa. Libya and Iran are interesting studies as both nations experienced similar sanctions, especially sanctions imposed by the United States, yet the outcome in each country has been vastly different. The South African study is interesting and relevant for comparison to this thesis' Iranian focus as it is a clear case where international sanctions and divestment affected the domestic politics of a nation.

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<sup>5</sup>See: Alfoneh's "How Intertwined Are the Revolutionary Guards in Iran's Economy," Torbat's "Impacts of the US Trade and Financial Sanctions on Iran," and Katzman's CRS report on Iranian sanctions as examples of scholarly focus on the external effects of sanctions on Iran, with minimal attention on internal/domestic effects.

## 1. Sanctions as Tools in Bringing about Domestic Change

### a. *Libya*

In December 2003, Muammar al-Qaddafi publicly announced Libya's plans to disband its weapons of mass destruction programs (WMDs). This announcement marked the first step in Libya's quest for normalization. The question is, why did Libya seek to normalize relations with the international community?

Negative U.S.-Libyan relations date to the beginning of the Qaddafi regime in 1969. Libya's isolation from the West and support for terrorism starting in the late 1970s are the main reasons for Libya's status in the international community.<sup>6</sup> Yahia Zoubir points to the Libya's "characteriz[ation] as an outlaw state" and the United States policy of regime change as major sources of Libyan animosity towards the United States. Zoubir further maintains that Libya's in the 1980s was internally by the rise of domestic Islamist militant groups and beginning of economic troubles, caused in part by international sanctions and by the world economy.<sup>7</sup> Similarly, Jonathan B. Schwartz in his article "Dealing with a 'Rogue State': The Libya Precedent" he credits sanctions against Libya as a result of the Lockerbie Bombing as the main reason that Libya's seeking of normalization due to domestic financial pressure.<sup>8</sup> The majority of the literature on the Libyan normalization is unified in the assertion that economic sanctions created intense domestic economic incentive for Qaddafi to alter Libya's internationally unacceptable behavior. However, even though economic and political disaffection in Libya arose partially because of sanctions, there was no drastic shift in Libya's internal politics as Qaddafi maintained a firm grip on the fragmented levers of power.

### b. *South Africa*

The South African case study is of great applicability to the Iranian focus of this thesis in that in the South African case there is an evident linkage between

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<sup>6</sup>Yahia H. Zoubir, "The United States and Libya: From Confrontation to Normalization," *Middle East Policy* Vol 13, no. 2 (Summer 2006): 49.

<sup>7</sup>Ibid., 50.

<sup>8</sup>Jonathan B. Schwartz, "Dealing with a 'Rogue State': The Libya Precedent," *The American Journal of International Law*, 101, no. 3 (July 2007): 555–556, 558.

economic/political sanctions and a change in the targeted nation's domestic polity. It is excellent empirical proof that sanctions can work as intended to bring about desired change, even on a national level as this thesis contends.

Literature regarding the cause collapse of apartheid is not unanimous but there is broad agreement that international sanctions at least hastened, if not outright precipitated, the end of apartheid in South Africa. Author Patti Waldmeir claims that as early as 1978, South Africa faced increased trouble accessing international financial markets, having "to pay premium rates on short-term lending" cause in large part by the sanctions in place against the South African regime.<sup>9</sup> Additionally, she credits sanctions with increasing political instability within South Africa by additional sanctions enacted by the U.S. Congress in 1986, damaging the "psyche of white South Africans" and further limiting the state's ability to pay for mounting costs of apartheid.<sup>10</sup> Alternatively, Anton Lowenberg maintains that it was "inherent weaknesses" in the apartheid system where the reason for the end of apartheid but acknowledges the domestic political situation was made worse by the worsening financial situation.<sup>11,12</sup> In any event, international sanctions in South Africa led directly to the exhaustion of minority white rule, and the political empowerment of the majority blacks. Sanctions provide to be effective tools in forcing domestic policy in a state as had not been seen before. This leads to the question of why we have not seen similar change in Iran.

### *c. Iran*

Literature on the role of sanctions in affecting Iran's domestic politics is unclear and unsettled. While there have been in recent years open source accounts of disaffection amongst the Iranian population at the cost of goods due to the sanctions, there has been no intensive scholarly linkage between the effects of sanctions and the rise

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<sup>9</sup>Patti Waldmeir, *Anatomy of a Miracle: The End of Apartheid and the Birth of the New South Africa* (Rutgers University Press, New Jersey 1997), 23.

<sup>10</sup>Waldmeir, *Anatomy of a Miracle*, 56–57.

<sup>11</sup>Anton Lowenberg, "Why South Africa's Apartheid Economy Failed," *Contemporary Economic Policy* XV (July 1997): 62

<sup>12</sup>Ibid., 66–67.

of the Iranian progressive movement or how sanctions may have affected the resurgence of Iranian conservative elements. While no firm linkage between sanctions and the rise of the progressive and re-rise of conservative movements has been established, there is sufficient literature to evaluate the effects of the sanctions in general.

A Congressional Research Service report claims multinational sanctions are having desired effect as U.S. and allied efforts to isolate Iran economically continue.<sup>13</sup> Cited are increased Iranian transactional costs to participate in international finance and increased costs for Iranian businesses in completing international transactions, which is leading to increased disaffection amongst the civilian sector for Iranian governmental policies.<sup>14</sup> Additionally, the loss of tax revenue due to continued international disinvestment from Iran and announced eliminations of key energy subsidies within Iran threaten to increase public disaffection with the Iranian government.<sup>15</sup> By comparison to the CRS report, Akbar Torbat maintains that both trade and financial sanctions have succeeded in damaging the Iranian economy “[however,] the political effect of the sanctions in terms of achieving their objectives ... has been minimal.”<sup>16</sup> Torbat maintains that stronger economic sanctions must be implemented if serious political change is sought by the United States.<sup>17</sup> Additionally, Torbat believes that while sanctions are preferable to military action, in the case of Iran due to the strength of the theocratic-political apparatus the current sanctions might not be sufficient to change Iranian policy.<sup>18</sup>

Torbat’s assertion that stronger sanctions would be required to affect political change is one of the few references in the literature regarding the effectiveness of sanctions that evaluates the potential of sanctions as tools in forcing internal political

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<sup>13</sup>U.S. Library of Congress, Congressional Research Service, *The Iran-Libya Sanctions Act (ILSA)*, by Kenneth Katzman, CRS Report RL2071 (Washington, DC: Office of Congressional Information and Publishing, June 1, 2006), I.

<sup>14</sup>Ibid., 50.

<sup>15</sup>Ibid., 51–52.

<sup>16</sup>Akbar E. Torbat, “Impacts of the US Trade and Financial Sanctions on Iran,” *The World Economy* 28, no. 3 (March 2005): 427.

<sup>17</sup>Ibid., 432.

<sup>18</sup>Ibid., 432–433.

change. As show by this brief overview of several disparate, but similar, case studies in the application of sanctions a key difference between Libya, South Africa and Iran is state institutional structures and reliance of the targeted economy on international markets. While all three economies were reliant on international markets, their domestic institutions differed. Sanctions in Libya's case did not affect domestic political change because Libya's domestic institutions did not include a mechanism for elective change and so change had to be forced from the leadership. Alternatively, South Africa's institutions were designed to be responsive to popular sentiment through voting even if that right was severely limited. In South Africa, change was brought about as the voting public realized that continued internationally unacceptable behavior was a detriment to the nation. Similarly, Iran also has domestic institutions capable of ushering in change, but while Torbat claims that the effects of sanctions have not been sufficient to force political change, this thesis will attempt to provide the linkage between economic sanctions and their effects on Iran's reform movement and resurgence of the conservatives in a manner which current literature regarding Iran's reform movement does not satisfy.

(1) Rise and Fall of the Iranian Progressive Movement. The early 1990s found Iran in a precarious situation. Social stagnation and economic woes continually mounted and the elected leadership of Iran under President Rafsanjani declared that it was time for the economy to begin modernization.<sup>19</sup> Following Rafsanjani's 1989 election, the Iranian government moved aggressively to improve economic conditions but in the face of declining world oil prices and enhanced US sanctions against Iran, the Iranian population grew increasingly disaffected with the status quo.<sup>20</sup> That disaffection, and calls for increased political reforms, led to the election of Seyyed Mohammed Khatami who advocated a better civil society and reform

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<sup>19</sup>Abrahamian, *A History of Modern Iran*, 183.

<sup>20</sup>Abrahamian, *A History of Modern Iran*, 184–185.

of domestic policies.<sup>21-22</sup> There is ample literature covering the rise of Khatami and the reform movement, but little links the effects of sanctions specifically to the rise of the reform movement but rather link sanctions to the economic situation in Iran, which in turn fueled Khatami's domestic agenda. Where there is more linkage between sanctions and Iranian domestic politics is the resurgence of conservative elements in the early 21st century.

While Khatami swept into office promising change, he was still subordinate to the Supreme Leader, which placed limitations on what he could accomplish.<sup>23</sup> Still, his election led to a brief period of *détente* with the United States and American sanctions were fractionally eased.<sup>24</sup> Adding to the complexity in Khatami's attempt to reform Iranian politics was the fact that conservative elements retained considerable influence and control in various institutions of the Iranian state included the military, media, the clergy, and "major economic organizations".<sup>25</sup> Those reactionary forces continuously sought to limit the extent of reforms due to a fear that the Islamic Republic of Iran's governmental structure might not survive reform in such a way that would benefit conservative interests. Literature regarding the continued influence of conservatives following the election of Khatami through the reemergence of conservatives to the forefront of Iranian political leadership does provide more overt linkage between the effects of sanctions and the power held by conservative elements. Of particular interests to scholars is the role of the Iranian Revolutionary Guard Corps (IRGC) as guardian of the Islamic state and as a bastion of conservatism within Iran. Ali Alfoneh and other scholars have pointed out the constitutional role that the IRGC has played in Iranian politics since the Islamic Revolution and points out the conservative

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<sup>21</sup>Yonah Alexander and Milton Hoenig, *The New Iranian Leadership: Ahmadinejad, Terrorism, Nuclear Ambition and the Middle East*, (Westport, CT: Praeger Security International, 2008), 36.

<sup>22</sup>Anoushiravan Ehteshami and Mahjoob Zweiri, *Iran and the Rise of its Neoconservatives: the Politics of Tehran's Silent Revolution*, (London & NY: IB Tauris, 2007), 5.

<sup>23</sup>Alexander and Hoenig, *The New Iranian Leadership*, 36.

<sup>24</sup>Abrahamian, *A History of Modern Iran*, 183.

<sup>25</sup>Ehteshami and Zweiri, *Iran and the Rise of its Neoconservatives*, 34.

thinking of the IRGC's leadership.<sup>26</sup> Other scholars have pointed out the role that sanctions have played in enabling the IRGC to exert discretionary influence over the whole of Iran. A recent thesis written at the Naval Postgraduate School by Robert McKnight II focuses on what the author terms the “militarization of Iran.”<sup>27</sup> My thesis will expand on McKnight’s exploration into the influence of the IRGC by exploring the political implications rather than the purely military implications, seeking to link sanctions and their effects to resurgence of the conservative movement in Iran and the subsequent downfall of the Iranian reform movement.

## **E. METHODS AND SOURCES**

Due to the unique and complex domestic politics and political system of Iran and the unique nature of sanctions against Iran, the method of study best suited for this thesis is a single case study approach. As there is really no comparison for the Iranian case, this thesis will explore the evolution of sanctions against Iran and developments in Iranian domestic politics since the 1979 Islamic Revolution attempting to establish correlation where supported by the evidence. At times, there will be elements of comparative study when analyzing the effects of sanctions in an attempt to understand where similar sanctions regimes can have different results. However, this comparative study will be limited in nature to sanctions and their impact on the targeted nation’s domestic political situation.

Sources used in this thesis include peer-reviewed regional and international journals, reports generated by research institutes, reports generated by professional world organizations, governmental reports and press releases. Information of Iran’s economy and domestic politics is best gathered from regional journals such as the Middle East

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<sup>26</sup>Ali Alfoneh, “Changing of the Guards: Iran’s Supreme Leader” *American Enterprise Institute of Public Policy Research*. April 2010. Accessed November 12, 2011.  
<http://www.aei.org/docLib/2010AprilNo1MiddleEasternOutlookg.pdf>.

Ali Alfoneh, “How Intertwined Are the Revolutionary Guards in Iran’s Economy,” *American Enterprise Institute for Public Policy Research*. October 2007. Accessed November 12, 2011.  
<http://www.aei.org/outlook/26991>.

<sup>27</sup>Richard L. McKnight II, “Sanctioning Success? Assessing the Role of Sanctions in the Militarization of Iran” (master’s thesis, Naval Postgraduate School, 2010)  
<http://handle.dtic.mil/100.2/ADA536545> (accessed November 13, 2011).

Journal, Middle East Economic Digest, and Middle East Quarterly and from newsmagazines like The Economist. Ideally, this thesis would rely totally on peer-reviewed scholarly articles, but when studying a society like Iran one must consider all possible information. Aside from peer-reviewed journals and newsmagazine articles, several research institutes such as the RAND Institute produce excellently researched reports on Iran. Reports produced by institutions like the World Bank, IMF, IAEA, WTO enable evaluation the economic status of Iran despite a dearth of information from official Iranian sources. United States government reports and sources, while potentially biased due to political appointments, are also excellent sources of information especially as related to sanctions and their effects. While Congressional Research Service reports are not generally considered scholarly in nature, they do provide excellent open source information. Lastly, while published books might present dated or static information compared to periodicals and journals, they still provide a wealth of knowledge that serves to round out our general background knowledge of Iran.

## **F. THESIS OVERVIEW**

The focus of this thesis makes division of analysis into strictly chronological periods difficult, in turn making thesis organization problematic. To address the question of the effects of sanctions on Iranian domestic politics and the Iranian reform movement, this thesis will include an introductory chapter, four chapters of research and analysis and a concluding chapter. The first chapter of research and analysis will be a historical review of Iranian sanctions since the 1979 Islamic Revolution through end of the Iran-Iraq War, focusing on the effects of said sanctions on Iran's economy and domestic politics. The second chapter of research and analysis will address the development of Iranian domestic politics and growing influence exerted by conservative factions in economic matters following the Iran-Iraq War through the election of President Khatami in 1997, with cross-referencing to sanctions, their implementation and effects, and Iranian conservatives' growing hold on the Iranian economic levers of power. The third chapter of research and analysis will cover the reform movement in action during the presidency of President Khatami, paying special attention to the causes for growing mistrust between Iran and West, as well as the international scrutiny and the domestic disillusionment that

brought about the fall of the reform movement in 2005. The fourth chapter of research and analysis will focus on the effects of sanctions that aided hardline Iranian elements like the IRGC in gaining economic and political influence within Iran, as well as the general conservative resurgence leading to the 2005 election of President Ahmadinejad. The concluding chapter will summarize the linkage between sanctions and Iranian domestic politics, and will present conclusions regarding the effectiveness of sanctions on Iran with special emphasis on their effect on Iran's domestic political polity in the context of U.S. foreign policy objectives.

## II. BEGINNING SANCTIONS: IRAN FOLLOWING THE ISLAMIC REVOLUTION

### A. U.S.-IRANIAN RELATIONS FOLLOWING THE 1979 REVOLUTION

The scope of this thesis begins with the period following the 1979 Islamic Revolution, which began on a negative note with a falling out between the United States and the new Iranian government. The tone for relations between the United States and the future Islamic Republic of Iran was set long before the 1979 Islamic Revolution with the U.S.-supported overthrow of Mossadaq and U.S. support for the Shah's oppressive regime.<sup>28</sup> The outlook for future relations between Iran and the United States did not improve after the Islamic Revolution thanks to the United States' decision to grant the deposed Shah entrance to the United States for medical care and refusing to return the Shah to Iran to face trial.<sup>29</sup> The history of American interference in Iran's internal affairs coupled with continued American support for the Shah was sufficient to negatively prejudice both the Iranian revolutionary authorities and the Iranian population as a whole. The Islamic student takeover of the U.S. Embassy in Tehran and the subsequent holding of hostages soured American views on Iran. Unrecognized by the U.S. government in the Ayatollah Khomeini's handling of the hostage situation was the fact that the Ayatollah's government did not yet exert full control of the Iranian state, a failure which prevented any application of leverage to either improve ties with the new Iranian regime or to negotiate a hostage release.<sup>30</sup> In response to the hostage situation in Iran, the United States government placed the first of many international sanctions against Iran with the issuance of Proclamation 4702, which invoked Presidential powers under the Trade Expansion Act of 1962 to block Iranian oil imports.<sup>31</sup> Proclamation 4702 was followed

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<sup>28</sup>Noreena Hertz, *The Silent Takeover: Global Capitalism and the Death of Democracy*, (HarperCollins, 2003), 88.

<sup>29</sup>Ali Gheissari and Seyyed Vali Reza Nasr, *Democracy in Iran: History and the Quest for Liberty*, (Oxford: Oxford University Press, 2006), xiv.

<sup>30</sup>Kenneth Pollack, *The Persian Puzzle: The Conflict Between Iran and America*, (New York: Random House, 2004), 168–169.

<sup>31</sup>Presidential Proclamation 4702. November 12, 1979. Accessed February 20, 2012. <http://www.presidency.ucsb.edu/ws/index.php?pid=31675#axzz1pjRbq8dn>.

by Executive Order (EO) 12170, which froze all Iranian governmental assets within the United States. EO 12205 & 12211 issued in April 1979 prohibited American companies from investing or participating in Iranian industry and limited direct Iranian access to American markets, increasing transactional costs in acquiring American goods, restricted American travel to Iran, and prohibited other direct financial transfers besides family remittances.<sup>32</sup> These limitations did not severely inhibit or inconvenience the Iranian economy on a macro scale, as the sanctions placed by EO 12205 and 12211 were unilateral American measures and not enforceable on other nations' economic interactions with Iran.

The initial American sanctions against Iran were retaliatory and coercive, but were not designed to affect fundamental domestic change within the target nation. The sanctions effected by Proclamation 4702, EOs 12170, 12205 and 12211 were designed to achieve a single goal, that of the release of the American hostages. The sanctions were primarily punitive measures designed to be rescinded upon release of the American hostages. In the aftermath of the hostage release, the Executive Orders sanctioning Iran were superseded by Executive Orders 12276-12284 in accordance with the agreement struck between the United States and Iran under the Algiers Accords.<sup>33</sup> While the sanctions were officially lifted and the United States had obligated itself to "not to intervene, directly or indirectly, politically or militarily, in Iran's internal affairs," newly elected President Reagan opted to maintain the prohibition on direct military sales to Iran. However, even in the aftermath of the sanctions, the hostage crisis and Islamic Revolution, there was still the hope in some sectors of American politics that Iran might eventually return to the United States' sphere of influence.<sup>34</sup>

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<sup>32</sup>Executive Order 12205. April 7, 1980. Accessed February 20, 2012.  
<http://www.treasury.gov/resource-center/sanctions/Documents/12205.pdf>.

Executive Order 12211. April 17, 1980. Accessed February 20, 2012.  
<http://www.treasury.gov/resource-center/sanctions/Documents/12211.pdf>.

<sup>33</sup>1979 Algiers Accords. January 19, 1981. Accessed February 20, 2012.  
[http://www.parstimes.com/history/algiers\\_accords.pdf](http://www.parstimes.com/history/algiers_accords.pdf).

<sup>34</sup>Ali Ansari, *Confronting Iran: The Failure of American Foreign Policy and the Next Great Crisis in the Middle East*, (New York, NY; Basic Books, 2006), 99–100.

However short-lived the immediate sequestration of Iranian property was, the perception of American economic enmity against Iran served the Iranian clerics purpose to further build upon popular dislike of America stemming from years of support for the Shah and the overthrow of Mossadaq. It is important to note that the sanctions emplaced by the United States played a relatively minor role in persuading Iran to release the hostages nor were the sanctions coordinated with any foreign government, showing that the key to any effective sanctions regime is international support. Given the level of vitriol exhibited by the Iranian public and the stubbornness of the Iranian revolutionary clergy, it is not inconceivable that Iran only gave up the hostages because it was no longer in Iran's best interest to retain them in light of global disapproval. The most noticeable effects of the American sanctions were the perception of American enmity and distrust that the sanctions presented to the Iranian public and its neighbors.

## **B. SANCTIONS AND THEIR EFFECT DURING THE IRAN-IRAQ WAR**

### **1. Effect of Sanctions on Iraq's Willingness to go to War**

A second-order effect of the sanctions was the unplanned and unanticipated effect it would have on Saddam Hussein's decision to attack Iran. Prior to the 1979 Islamic Revolution, the United States had been Iran's primary international partner in both international relations and international security. Iraq, due to its strategic position, had long been a buffer zone between the Arab world and the Persian/Iranian nation. Where the Soviet Union had been Iraq's primary benefactor due to Cold War politics and the United States was Iran's, the sudden change in the geostrategic situation following the Islamic Revolution represented by Iran's loss of American patronage was attractive to Iraq for the opportunity to settle territorial disputes, possibility of acquiring economic resources, and acquiring regional prestige.<sup>35</sup> While not the sole, or even the most important, factor in Saddam Hussein's willingness to go to war, the sanctions and subsequent perception of Iran's international isolation undoubtedly served as a factor in the start of the Iran-Iraq War.

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<sup>35</sup>Thom Workman, "The Social Origins of the Iran-Iraq War," *Centre for International and Strategic Studies Working Papers #5*, (Ontario: Centre for International Strategic Studies, 1991): 6-7.

The continued American refusal to directly sell arms to Iran and direct/indirect support for the Iraqi war effort, as well as other anti-Iranian measures taken during the Iran-Iraq War, directly contributed to the continued Iraqi ability to prosecute a war against a numerically superior opponent. The majority of Iran's military equipment at the onset of the Iran-Iraq War was of American manufacture, thus requiring American munitions and parts to be effective. Saddam Hussein could see that Iran's military, industrial, and economic power would only grow as the Islamic Revolution took complete hold over Iran and would eventually spread to other parts of the Middle East, including Iraq. Doubtlessly, Saddam Hussein viewed the Iranian material and personnel situations as a boon to his dream of Iraqi regional supremacy that might not be the case once the Iranian clergy secured their revolution. However, more important than the effects of Iran's isolation on Iraqi war decision-making is the affect that the continued American opposition to the Islamic Republic in general and the weapons embargo in particular represented.

## **2. Effects of Sanctions on Iran's Economy and Military Industry**

Following the fall of the Shah, Khomeini stood as the only source of power. Any potential alternative to an Islamic form of government would have had to rise from the middle class, the merchant class, of Iran. However, that middle class was itself fragmented both politically and religiously, having only a strong sense of nationalism in common and absent strong cohesive leadership from its own ranks, the middle class defaulted to following the leadership that offered the most stability.<sup>36</sup> The merchant class saw the American embargo as a direct threat to their way of life and so embraced the new Islamic regime. This observation is not to imply that had the United States not placed the embargo that the merchant class would have acted differently but rather as explanation for why the politically fragmented merchant class supported Khomeini even before the threat represented by Iraq's invasion. For the Islamic leaders of Iran, the war with Iraq presented the opportunity to consolidate power and determine the future course for Iran. By framing the struggle with Iraq as both a nationalistic and religious struggle, the

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<sup>36</sup>Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience* (Albany: State University of New York Press, 1990), 2.

revolutionary leadership was able to suborn any domestic issues in Iran to the ongoing crisis.<sup>37</sup> The economic isolation of its former primary trading partner provided the new leaders of the Islamic Republic with an external threat against which to rally the populace and an excuse for any deprivations.<sup>38</sup>

A significant impact of the initial American embargo is that it ended Iranian access to American financial markets and ended the long military-industrial ties between Iran and the United States, forcing Iran to in the future rely more on its indigenous military-industrial complex and other foreign military material suppliers. Where the Iranian military under the Shah embraced foreign military suppliers, with the new restrictions on international transactions, the Iranian armed forces began a trek towards indigenous military production that continues to this day. Combined with later sanctions and political dominance of conservative factions within the Islamic Republic such as the Revolutionary Guard, large segments of Iranian domestic industry would fall under the control of conservative elements of the Islamic Republic that would fuel both their influence and ability to oppose any political liberalization. In the short term, the Iranian leadership took the opportunity afforded by the domestic economic crisis created by the Iran-Iraq War and by the American sanctions to nationalize key businesses in Iran. Shortly following the fall of the Shah, Ayatollah Khomeini moved to consolidate economic control of Iran. Interesting of note is that without the economic policies of the Shah that rapidly turned Iran into a modern industrial nation, the Islamic Revolution might have never come about, or at least have been delayed, or even been defeated by Iraq. Nonetheless, the Islamic revolutionaries who ultimately gained power following the revolution did not have a defined economic agenda other than to redefine the purpose of the economy which was according to the 1979 Iranian constitution became “not an ‘end in itself’ but only a ‘means’ of moving toward God.”<sup>39</sup> To this end, all major industrial ventures, all financial sectors, and thousands of privately held businesses were

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<sup>37</sup>Efraim Karsh, *The Iran–Iraq War, 1980–1988* (Osprey Publishing, 2002), 71–72.

Abrahamian, *A History of Modern Iran*, 176.

<sup>38</sup>Abrahamian, *A History of Modern Iran*, 176.

<sup>39</sup>Jahangir Amuzegar, “The Iranian Economy before and after the Revolution,” *Middle East Journal* 46, no. 3 (Summer, 1992): 416.

nationalized and administered either directly by the state or by state-administered foundations (*bonyads*).<sup>40</sup> It was during this period following the revolution, but before the Iran-Iraq War, that the Iranian state established the framework by which conservative revolutionary elements would hold considerable control over Iran's domestic economy. One key portion of the Iranian domestic economy that was to play a role was arms production, especially in light of the American embargo on direct military sales. Very soon after the nationalization of the Iranian military-industrial complex, steps were taken to begin Iran's march down the road of indigenous military production and Iranian arms acquisition was diversified, showing the limited effectiveness of the American sanctions.<sup>41</sup>

As part of the American arms embargo against Iran, no American companies could directly sell weapons to Iran. However, American companies were still free to sell weapons to other third parties who found that the Iranians were willing to pay a premium for American arms as the Iran-Iraq War heated up. As American realization grew on the futility of unilateral enforcement of arms embargoes, there was a desire in the Regan Administration to further curtail transshipment of American arms to Iran. This desire was realized by Operation Staunch, a State Department initiative to actively seek the support of various third party nations in the Arab world and allied nations such as South Korea and Italy in abstaining from supplying the Iranians.<sup>42</sup> However, proof of the limitations of sanctions, especially unilateral sanctions, exists in the Iran-Contra Affair in which the sanctioning nation itself broke the embargo against Iran.

The Iran-Contra Affair is a thesis subject in and of itself; however, it is relevant in exploring while reviewing the effectiveness of sanction against Iran, because the scandal

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<sup>40</sup>Abrahamian, *A History of Modern Iran*, 178.

Amuzegar, "The Iranian Economy before and after the Revolution," 416.

<sup>41</sup>Robert M. Rosh, "Third World Arms Production and the Evolving Interstate System," *The Journal of Conflict Resolution* 34, no. 1 (Mar 1990): 72.

<sup>42</sup>Micah Sifry and Christopher Cerf, *The Iraq War Reader: History, Documents, Opinions*, (Touchstone, 2003), 33.

Robin Wright, *The Iran Primer: Power, Politics, and US Policy*, (United States Institute for Peace Press, 2010), 134.

shows how a sanctioned nation can circumvent embargoes when leverage of any sort exists. In the Iran-Contra Affair, the leverage was both the United States' foreign policy priorities in both the Middle East and Central America and the hostages taken by Iranian-affiliated terrorist organizations. In an attempt to both engage Iran, as characterized by President Reagan, and secure the release of the American hostages, elements within the United States sold American weapons to Iran through Israeli connections.<sup>43</sup> In the end, proceeds from the weapon sales to Iran were proven to have illegally funded American support for Nicaraguan rebels and the weapons themselves went to the Iranian government. Sanctions tend to encourage corruption in their implementation, and the American embargo on Iran is no different.<sup>44</sup>

Ultimately, American sanctions had little to no effect on Iran itself, aside from slightly raising transactional costs on foreign military procurement. Any negative effects on the Iranian economy were a result of reorganization in the Islamic Revolution's aftermath and not sanctions as the central Iranian planned economy faltered, changes in private land ownership affected agricultural production and basic government bureaucracies were overhauled.<sup>45</sup> In terms of military industry, the global arms industry and Iran's own burgeoning military-industrial complex stepped in to neutralize many of the negative effects of the expanded American efforts to hamper Iran's effort to procure war materials. By the end of the war, Iran had surpassed several traditional arms manufacturing nations and was able to produce indigenous weapons systems to replace American arms.<sup>46</sup> Iran's ability to stave off military disaster against the well-organized

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<sup>43</sup>President Reagan's Oval Office Iran-Contra Speech . March 4, 1987. Accessed February 29, 2012. <http://www.pbs.org/wgbh/americanexperience/features/primary-resources/reagan-iran-contra/>.

Unattributed, "IRAN-CONTRA REPORT; Arms, Hostages and Contras: How a Secret Foreign Policy Unraveled," *New York Times*, November 19, 1987, accessed February 29, 2012, <http://www.nytimes.com/1987/11/19/world/iran-contra-report-arms-hostages-contras-secret-foreign-policy-unraveled.html>.

<sup>44</sup>See Iraq Oil-for-Food program, African conflict diamond sales, and the Iran-Contra affair as examples of corruption in enforcement of sanctions.

<sup>45</sup>Shaul Bakhash, *The Reign of the Ayatollahs: Iran and the Islamic Revolution*, (New York, NY: Basic Books, 1984), 166.

Abrahamian, *A History of Modern Iran*, 169.

<sup>46</sup>Anoushiravan Ehteshami, "Iran Boosts Domestic Arms Industry," *Jane's International Defence Review* (April 1, 1994): 72.

Iraqi war machine and eventually take the offensive is excellent evidence on the limitations of sanctions as an instrument of forced change. Similarly, the pressure created in part by the American sanctions gave rise to the Iranian indigenous arms industry that was later to be coopted and serve as a power base for conservative Iranian elements like the IRGC.

### **3. Iran's Domestic Political Situation**

A common linkage between revolutionary states is that a post-revolutionary conflict strengthens the revolutionary regime.<sup>47</sup> Such is the case in Iran, with the Iran-Iraq war allowing Iranian revolutionary authorities to consolidate their bases of power, eliminate potential rivals. When no external threat to the state exists, the leaders of a state have to pay special attention to societal problems and take action to minimize any complications that might threaten the stability of domestic politics. The attention required to ensure stability in a post-revolutionary state is even greater. Affecting the domestic political situation in Iran following the fall of the shah was the fragmented political scene, external pressures from the United States and regional neighbors, and The economy of Iran during the 1980s was threatened by fluctuating oil prices, the Iran-Iraq War effect on oil exports, and economic isolation from its previous prime trading partner, the United States.

Even before the start of the Iran-Iraq War, the direction that Iran's domestic politics was to take was in question. Grand Ayatollah Khomeini had advocated for a democratically elected leadership and at first supported the election of President Banisadr. However, disagreement over the direction that the Islamic Republic was to take, especially in regard to the powers of the presidency, forced a rift between Banisadr and Khomeini. The Iranian Constitution adopted in 1979 established a thoroughly theocratically-led democracy, ignoring the political resistance of secular elements of Iranian politics. Disaffected by the course upon which Grand Ayatollah Khomeini had set Iran upon, Banisadr colluded in a failed effort to overthrow the Iranian government

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<sup>47</sup>See the American-British conflict & War of 1812, Napoleonic Wars, Russian Civil War, and Korean War where a conflict following a revolution resulted in a stronger revolutionary state. Also supported by De Tocqueville's assertion that "Revolutions invariably produce stronger states."

with the Mojahedin, a secular Marxist opposition political group originally allied with Khomeini in the Shah's overthrow.<sup>48</sup> The uprising was brutally crushed by Islamic militias loyal to the Grand Ayatollah and the Revolutionary Guard, securing the Islamic Revolution and the Islamic Constitution. What this episode tells us is that political discord and fragmentation existed in Iraq before and after the Islamic Revolution, making it difficult to attribute future political realignments to any single external or internal factor, such as sanctions or economic pressure. Additionally, the brutal suppression of the uprising demonstrates both the dedication of the Revolutionary Guards, which was later rewarded by subsequent measures taken after the Iran-Iraq War to secure the Revolutionary Guards place in domestic politics by way of economic promotion.

As the war against Iraq continued, Khomeini and the Iranian government discovered the breathing room afforded by an external existential threat to the state and the popularity of Khomeini. The Basij militias and the Revolutionary Guard solidified their positions with both the Iranian populace and the clerical/political elites as saviors of the nation. This trust from both the ruling class and the masses allowed the conservative militant factions represented by the *Basijis* and the IRGC to exert enormous influence in the political and economic arenas after the Iran-Iraq War. This influence garnered from the Iran-Iraq War period was the foundation of subsequent national influence following the death of Khomeini and the resurgence of reformist factions. However, victory and subsequent political influence was not really a factor as Iran fought for a victory, which Khomeini had decided, was to be an unconditional victory. The failure to settle the Iran-Iraq War, with concessions from Iraq was a mistake and was primarily responsible for the severe deterioration of the Iranian economy after the 1982 Iraqi offer for peace based on the 1975 Algiers Agreement. Regardless of the damage to the Iranian economy, even after the war Khomeini refused to admit that continuation of the war against Iraq had been a mistake claiming that it would have been a failure in Iran's religious duty. This stubbornness showing that like in his economic principles, domestic politics and foreign

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<sup>48</sup>Abrahamian, *A History of Modern Iran*, 181.

Bakhash, *The Reign of the Ayatollahs: Iran and the Islamic Revolution*, 72.

affairs of the Iranian Islamic Republic must suborn themselves to religious duty.<sup>49</sup> This stance is a great indicator of Iran's moral strength and source of philosophical ideology for conservatives within Iran.

### C. CONCLUSION

Important to note in the study of Iran's domestic politics during the Iran-Iraq War is the near-complete lack of influence of sanctions to affect either Iran's internal or foreign affairs. There was no internal debate on foreign policy changes or for rapprochement with the United States, but rather a dogged determination to defeat Iraq and spread the Islamic Revolution. However, an argument is made for the effectiveness of sanctions in Iran's decision to end the war in light of UN sanctions imposed against Iran in 1988 for refusing ceasefire terms, sanctions which were echoed by the United States with enhanced sanctions including prohibition against all Iranian imports (with the exception of oil).<sup>50</sup> Faced with continued war and economic struggles on the home front, Khomeini decided to end the war but the Iranian government placed the blame for the lack of total victory on the United States' interference and support for Iraq.<sup>51</sup>

The United States was made the scapegoat onto which the Iranian elites deflected criticism from themselves and their chosen champion, the IRGC, leaving the conservative elements that would later stymie reform efforts relatively unblemished by both the Iranian failures during the war with Iraq and the faltering economy. The clerical and political conservatives were strengthened by their ability to purge Iran of revisionists, recidivists, and counterrevolutionaries afforded by the external threats. Iran's greatest success during the Iran-Iraq War period was its ability to survive in spite of internal/external threats and easily survived American sanctions.<sup>52</sup> The sanctions' lack of effectiveness during this period support the first and, to a lesser extent, the second

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<sup>49</sup>Baqer Moin, *Khomeini: Life of the Ayatollah* (New York, NY: Thomas Dunne Books, 2000), 284–285

<sup>50</sup> Robert Litwak, *Rogue State and US Foreign Policy: Containment after the Cold War* (Washington, DC; Baltimore: Woodrow Wilson Center Press, 2000), 162.

<sup>51</sup>Sharam Chubin, “The Last Phase of the Iran-Iraq War: From Stalemate to Ceasefire,” *Third World Quarterly* Vol 11, No.2 (April 1989): 13.

<sup>52</sup>Shireen T. Hunter, *Iran after Khomeini* (New York, NY; Praeger, 1992), 3.

hypothesis of this thesis, in that sanctions did not noticeably affect any domestic political reform movements but enabled the basic economic and political framework wherein conservative elements would entrench themselves. A stronger threat to Khomeini's state was to develop after his death from enhanced sanctions, domestic unrest, and the rise of moderate reformists.

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### **III. LIFE AFTER KHOMEINI: NEW SANCTIONS AND THE RISE OF THE REFORMISTS**

#### **A. DEATH OF AN ICON: RESTRUCTURING IRANIAN DOMESTIC POLITICS AFTER KHOMEINI**

Grand Ayatollah Khomeini's death on June 5, 1989, was a major intersection in both Iranian and Middle East history. Khomeini was an iconic figure who had dominated Iran's domestic politics, Middle Eastern regional affairs, and commanded disproportionate American interest for over a decade. The period following the death of Khomeini presented an opportunity for potential reformists within Iran to rise and attempt reforms of Iranian government but for the near decade of political austerity characterized by repression and purges of moderate or liberal politics within Iran. The decade of political repression left rudderless any nascent moderate political movement, but need for reform was evident even to Khomeini's conservative followers in recognition of Iran's economic, social, and political realities.<sup>53</sup> Any authority figure that would step into the power vacuum left by Khomeini's death would invariably not command the same support that Khomeini had. Additionally, foreign affairs challenges needed to be addressed, including lingering American economic sanctions. Change would happen in Iran, but whether the country would end up markedly more conservative or more liberal was very much in question. As one reviews the evidence and literature, it becomes increasingly evident that the growth of the Iranian reform movement following the death of Khomeini was not significantly affected by external sanctions but rather as an amalgam of factors ranging from oil economic conditions to internal Iranian political factionalism to the weariness of the Iranian populace.

##### **1. The Rise of Ayatollah Khamenei**

Following the exhausting war with Iran, Khomeini and the conservative establishment sought to deflect any criticism of the political and religious elite by targeting domestic dissidents. The bloodbath that occurred in 1988 caused a split

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<sup>53</sup>Shireen T. Hunter, *Iran after Khomeini*, 1–2.

between Khomeini and his heir-apparent, Ayatollah Montazeri, who was the next most senior religious figure in Shia Islam and close to Khomeini. Montazeri's public disapproval of the methods by which the Iranian government was repressing dissidents led Khomeini to remove Montazeri as his heir.<sup>54</sup> With the removal of Montazeri and unable to find a suitable candidate of the requisite elevated religious scholarly credentials, Khomeini had the constitution amended to remove the requirement that the Supreme Leader be an ayatollah. Upon Khomeini's death, it was then-President Khamenei that was elected by the Assemble of Experts partly due to Rafsanjani's efforts and perhaps even the political establishment's belief that Khamenei's dependency on them for legitimacy might make Khamenei more pliant.<sup>55</sup> A weak Supreme Leader was what some conservative elites may have wished for, but Khamenei set about ensuring his positional authority by creating a system of "commissars" or personal representatives that he appointed to every Iranian institution.<sup>56</sup> Khamenei realized that his authority at the beginning was not as secure as Khomeini's authority and set about securing it, and would exercise considerable influence from his election as Supreme Leader to the present day.

With the elevation of Khamenei to Supreme Leader and Rafsanjani's election as President, a period of liberalization began in Iran as Khamenei and Rafsanjani propelled Iran down the road of reform based on economic reforms, governmental reforms, and improved foreign relations.<sup>57</sup>

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<sup>54</sup>Moin, *Khomeini: Life of the Ayatollah*, 280–283.

Ruhollah Khomeini, "Letter to Montazeri," originally printed in *Abrar*, November 22, 1997, . Accessed March 5, 2012.  
<http://web.archive.org/web/20070313222514/http://www.irvl.net/Translation+of+Ayatollah+Khomeini%27s+Letter+Dismissing+Montazeri.htm>.

<sup>55</sup>Karim Sadjadpour, *Reading Khamenei: The World View of Iran's Most Powerful Leader* (Washington DC; Carnegie Endowment for International Peace, 2009), 6.

Ray Takeyh, *Hidden Iran: Paradox and the Power in the Islamic Republic* (New York, NY; Holt Paperbacks, 2007), 33.

<sup>56</sup>Wilfried Buchta, *Who Rules Iran? The Structure of Power in the Islamic Republic* (Washington DC; Washington Institute for Near East Policy, 2000), 47–48.

<sup>57</sup>Abrahamian, *A History of Modern Iran*, 183.

### *a. Economic Reforms*

The Iran-Iraq War was economically very damaging to Iran as Iran's industrial capability was dedicated to the war effort, the method in which both Iran and Iraq prosecuted the war was damaging to both economies by targeting each other's oil exports, and a significant portion of Iran's labor pool was taken out of the productive economy to fight. After the war, much of the Iranian economy was in the hands of statist foundations (*bonyads*), foreign investment was near non-existent, taxes were high, defense spending was at record level, and standards of living were poor. Although Khamenei believed that a goal of the Islamic Revolution was self-sufficiency, it was readily apparent that a government that cannot provide for its citizen's needs would not survive.<sup>58</sup> Steps were taken to liberalize the economy by abolishing rationing, lowering defense spending, lowered business taxes, and increased imports.<sup>59</sup> The period following the Iran-Iraq war saw a continual liberalization of the Iranian economy as peace eased the economic exhaustion in Iran, the leaders of Iran had a firm control of the Iranian state and were now willing to decentralize the economy to combat social problems like "shrinking living standards".<sup>60</sup> President Rafsanjani's introduction of his first Five-Year Plan planned an aggressive expansion of the Iranian economy following the damage to the Iranian economy during the Iran-Iraq War caused by the economic strains of the war and the fluctuating price of oil, Iran's main export.<sup>61</sup>

While not as successful as the Iranian government had envisioned, through structural reform, high oil prices, and economic diversification primarily through increased import, the First Five Year Plan proved critical in stabilizing the Iranian economy following the Iran-Iraq War that also served to stabilize the domestic political

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<sup>58</sup>Sadjadpour, *Reading Khamenei*, 11.

<sup>59</sup>Abrahamian, *A History of Modern Iran*, 183–184.

<sup>60</sup>Hassan Kaimian and Massoud Karshenas, 'Dilemmas and Prospects for Economic Reform and Reconstruction in Iran' in Parvin Alizadeh, ed. *The Economy of Iran: The Dilemma of an Islamic State*. (New York, NY: IB Tauris & Co Ltd., 2000), 44.

<sup>61</sup>Massoud Karshenas and M. Hashem Pesaran, "Economic Reform and the Reconstruction of the Iranian Economy," *Middle East Journal* 49, no. 1 (Winter, 1995): 89–90.

situation.<sup>62</sup> Increased oil production and increased industrialization of Iran was to fuel Iran's post-war growth as Iran courted foreign investors. Agreements with Total and CONOCO to develop Iranian oil resources signaled a new era in Iranian foreign commercial affairs, just as the 1990 Iraqi invasion of Kuwait bolstered world oil prices.<sup>63</sup>

A key component of Rafsanjani's efforts to reform Iran's economy was to decrease military spending. Unlike Iraq, which had been able to finance the Iran-Iraq War through its access to international markets, which had heavily militarized its economy under the load of a crushing debt, Iran came out of the war with both a ravaged economy and military. An obvious requirement of Iranian economic reform was to reduce defense spending by reducing the size of the military and redirecting governmental assets to the civilian sector.<sup>64</sup> Fortunately for the Iranian leadership, there is a constitutional requirement that “[i]n time of peace, the government must utilize the personnel and technical equipment of the Army in relief operations, and for educational and productive ends, and the Construction Jihad,” which was interpreted to mean that organizations within the government suited to commercial endeavors should be used as such.<sup>65</sup> Combined with control granted to them by the Iranian government over several of the *bonyads* as reward for faithful service and a new hierachal ranking system within the IRGC, the IRGC expanded from being a purely military organization to beginning to operate as its own military-industrial complex—a concept which will be explored later in this thesis.<sup>66</sup> Under Rafsanjani and Khamenei, Iran's economy began to open up, the

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<sup>62</sup>Mohsen Milani, “Iran’s Post-Cold War Policy in the Persian Gulf,” *International Journal* 49, no. 2, After the Gulf War (Spring, 1994): 335.

<sup>63</sup>Thomas Mattair, *Global Security Watch – Iran: A Reference Handbook* (Westport, CT; Praeger Security Int’l, 2008), 47.

Jahangir Amuzegar, *Iran’s Economy Under the Islamic Republic* (New York, NY; IB Tauris & Co Ltd, 1993), 236–237, 249.

<sup>64</sup>Milani, “Iran’s Post-Cold War Policy in the Persian Gulf,” 339.

<sup>65</sup>The Constitution of Islamic Republic of Iran, Article 147. Accessed March 7, 2012.[http://www.iranchamber.com/government/laws/constitution\\_ch09.php](http://www.iranchamber.com/government/laws/constitution_ch09.php).

<sup>66</sup>Suzanne Maloney, ‘Agents or Obstacles? Parastatal Foundations and Challenges for Iranian Development’ in Parvin Alizadeh, ed. *The Economy of Iran: The Dilemma of an Islamic State*. (New York, NY: IB Tauris & Co Ltd., 2000), 145–169.

Iranian peoples' standard of living improved, and either advertently or inadvertently, secured continuing positions of power for conservative elements within Iranian society through economic dominance.

A large factor in Rafsanjani and Khamenei's desired economic reforms required improved foreign relations, especially regional affairs and cooperative OPEC interaction. Important of note that existing American sanctions, and subsequent sanctions by the United States and international community after 2002, did very little besides increasing transactional costs or compelling Iran to accept inferior substitutes, which did very little to inconvenience either the government or the populace.<sup>67</sup> The American sanctions' lack of effectiveness or even noticeability to the Iranian population is further evidence in support of Hypothesis #1, that sanctions failed to have an impact on the rise of the reform movement but rather encouraged increased native self-reliance.

### ***b. Governmental Reform***

Even before the death of Khomeini, governmental reform was underway, especially in regard to the office of the president. Whereas power had previously been concentrated in the Supreme Power with few delegated powers to the president and Prime Minister, reform centralized power and gave more executive power to the president by removing the post of Prime Minister, creating the post of Vice President who was to be appointed by the President, and allowing the president to select and dismiss his ministers.<sup>68</sup> Of course, the Supreme Leader still had ultimate veto power through the concept of *velayat-e faqih*; however, the governmental reforms provide some insight for an explanation why Rafsanjani did not directly seek the post of Supreme Leader, with the newly established ability to have more of an immediate effect and why Khamenei would accept leaving the newly empowered post as President for the opportunity to rise farther than Khamenei otherwise ever could, given his position in the religious hierarchy.

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<sup>67</sup>Jahangir Amuzegar, "Adjusting to Sanctions," *Foreign Affairs* 76, no. 3 (May - Jun., 1997): 32.

<sup>68</sup>Mohsen Milani, "The Evolution of the Iranian Presidency: From Bani Sadr to Rafsanjani," *British Journal of Middle Eastern Studies* 20, no. 1 (1993): 93–96.

After Khamenei's assumption to the office of Supreme Leader and Rafsanjani's as president, both of them realized the necessity to trim the government bureaucracy if only to rein in spending. While the bureaucracy was ultimately successful, progress was made in streamlining the ministries by combining several therefore reducing them from 25 to 21 ministries.<sup>69</sup> However, public sector employment remained elevated.<sup>70</sup> Even Rafsanjani's dedication towards reducing the size of the military only reduced the active duty military but Iran increased military spending during his administration.<sup>71</sup>

Despite what both Rafsanjani and Khamenei may have initially intended, either the bureaucracy was too entrenched to be reduced or it served the duumvirate's purposes to retain the large governmental structure. Indeed, government spending even increased in the short term in spite of the desire to cut costs, although decreases in government spending are evident later in Rafsanjani's administration.<sup>72</sup> Given the increased legal authority of the president and the continued legal/religious authority of the Supreme Leader, it defies credibility that the bureaucracy would have been able to successfully serious efforts by the President or the Supreme Leader to reduce the bureaucracy.

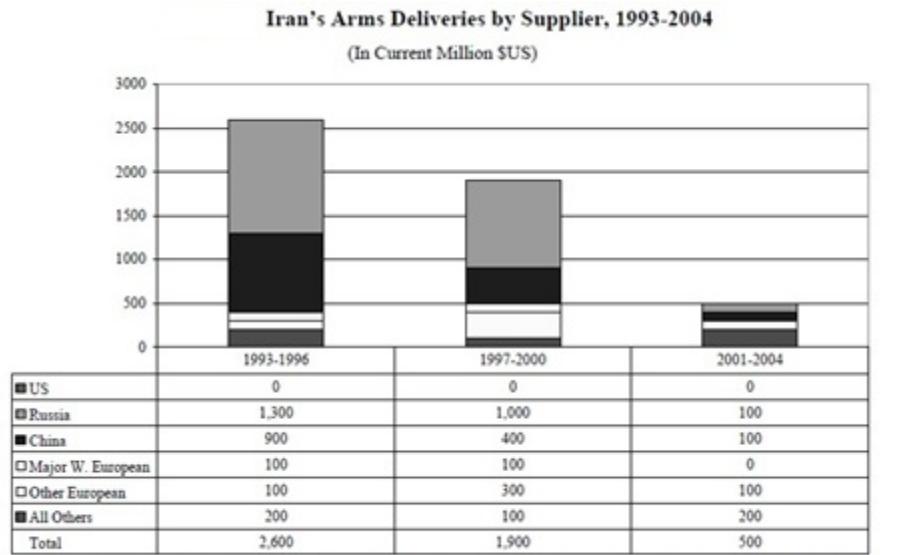
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<sup>69</sup>Abrahamian, *A History of Modern Iran*, 183.

<sup>70</sup>Amuzegar, *Iran's Economy Under the Islamic Republic*, 63.

<sup>71</sup>See Figure 1. Accessed March 5, 2012. [http://csis.org/files/media/csis/pubs/060728\\_gulf\\_iran.pdf](http://csis.org/files/media/csis/pubs/060728_gulf_iran.pdf)

<sup>72</sup>See Figure 2. Hassan Kaimian and Massoud Karshenas. 'Dilemmas and Prospects for Economic Reform and Reconstruction in Iran' in Parvin Alizadeh, ed. *The Economy of Iran: The Dilemma of an Islamic State*. (New York, NY: IB Tauris & Co Ltd., 2000), 57.



Source: Richard F. Grimmett, *Conventional Arms Transfers To Developing Nations, 1997-2004*, CRS, August 29, 2005; and Richard F. Grimmett, *Conventional Arms Transfers To Developing Nations, 1993-2000*, CRS, August 16, 2001.

Figure 1. Iran's Arms Deliveries by Supplier

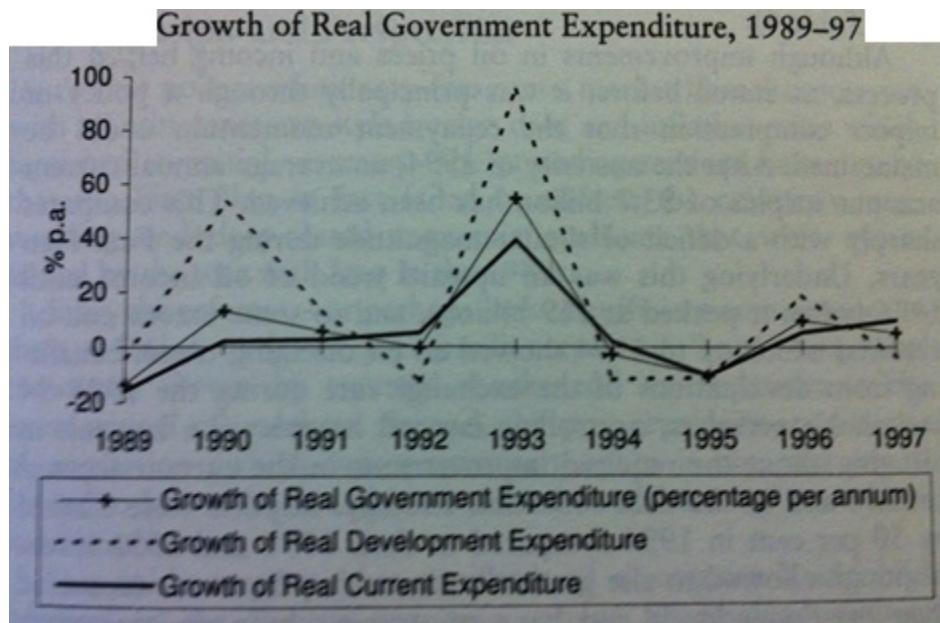


Figure 2. Growth of Iran's Government Expenditures

*c. Foreign Relations*

A very important aspect to Iranian economic reform was improvements in Iran's foreign relations. Historical animosity between Iran and the Arab world, regional

competition, economic problems caused by the 1979 Islamic Revolution, and international isolation during the Iran-Iraq War all crimped Iran's efforts to rehabilitate its economy. Rafsanjani determined that stability and normalization in the Gulf would require positive actions on Iran's behalf to assure regional powers that Iran did not seek to export the Iranian Islamic Revolution as Khomeini had previously dedicated himself.<sup>73</sup> Khamenei approved of Rafsanjani's efforts to improve regional relations if for no other reason than to ensure continued economic recovery, but was severely opposed to improved relations with the United States.

(1) Regional. Rafsanjani correctly realized that Saudi Arabia was the lever of power within both the Arab world and OPEC, so it behooved Iran to make peace, else risk continued antagonism in economic markets such as Saudi Arabia's efforts during the Iran-Iraq war to depress world oil prices to negatively affect Iran.<sup>74</sup> Rafsanjani sought to stabilize relations in the Gulf, proposing Iranian-GCC alliance to prevent future events like the Iraqi invasion of Kuwait.<sup>75</sup> Issues such as Iranian participation in the Haj were resolved, and despite the Sunni-Shia divide, relations between the two countries continued on a positive trajectory even past the end of Rafsanjani's terms as president. Relations with other Gulf States similarly improved as Saudi-Iranian relations improved.

Regional stability was key for Iranian stability as Iran confronted in the Middle East the hostility of the world's sole superpower, potential for power struggles over oil resources, and regional hostility that Iran was ill-suited to resist in light of Iran's gap between its economic and military capabilities and its previous

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<sup>73</sup>Milani, "Iran's Post-Cold War Policy in the Persian Gulf," 338.

<sup>74</sup>Wayne Bowen, *The History of Saudi Arabia* (Westport, CT; Greenwood Press, 2008), 120.

Bahman Bakhtiari, 'Revolutionary Iran's Persian Gulf policy: the quest for regional supremacy,' in Hooshang Amirahmadi and Ander Entessar, eds, *Iran and the Arab World*, (London, England; Macmillan 1992), 69–93.

<sup>75</sup>Peter W. Wilson and Douglas F. Graham, *Saudi Arabia: The Coming Storm* (Armonk NY, M.E. Sharpe Inc., 1994), 118.

revolutionary aspirations.<sup>76</sup> Rafsanjani's success in building regional stability more than compensated for any negative externalities caused by American sanctions.

(2) Europe and Japan. Given Khamenei's resistance to improved relations with the United States, Rafsanjani sought to make connections with other financially developed nations. Denied access to the United States' industrial markets, Iran invited European countries to export to Iran and participate in Iran's post-war rebuilding efforts. Iran under Rafsanjani aggressively countered American efforts to isolate Iran by offering opportunities for European and Japanese investment.<sup>77</sup> Additionally, despite U.S. opposition in February 1994 Germany rescheduled Iran's debt showing the lack of effectiveness of American efforts to diplomatically and economically isolate Iran.<sup>78</sup> The allure of the economic opportunities available in Iran along with Iran's energy resource export capacity negated any European or Japanese desire to shun Iran.

(3) Russia. While increased trade with Russia following Khomeini's death is definitely an important aspect of Iran's foreign affairs, even more important was the role that Russia was to play in Iran's nuclear aspirations. Khamenei and Rafsanjani were both advocates of an Iranian nuclear program, an issue that Supreme Leader Khamenei may have seen as a possible counterbalance to Rafsanjani's desire to normalize relations with the United States and Rafsanjani may have seen as a way to free the Iranian economy on dependence from importation of refined petroleum products. Where Khomeini's Islamic Revolution could not work with the Soviet Union, the Islamic Revolution was not incompatible with newly democratic Russia. In Russia, Iran found a nuclear partner that could be relied upon to resist American demands as even nuclear European powers might be able to.<sup>79</sup>

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<sup>76</sup>John Calabrese, *Revolutionary Horizons: Regional Foreign Policy in Post-Khomeini Iran* (New York, NY; St. Martin's Press, 1994), 7–9.

<sup>77</sup>Amuzegar, *Iran's Economy Under the Islamic Republic*, 155.

<sup>78</sup>Edward G. Shirley, "The Iran Policy Trap," *Foreign Policy* no. 96 (Autumn, 1994): 79–80.

<sup>79</sup>John Parker, *Persian Dreams: Moscow and Tehran Since the Fall of the Shah* (Washington DC; Potomac Books, 2009), xi.

## 2. Nuclear Program and Sanctions

Iran's nuclear program goes back to President Eisenhower's Atoms for Peace program and continued under Shah Reza Pahlavi's following his assertion that "petroleum is a noble material, much too valuable to burn" and his belief in the eventual end of Iran's oil supply.<sup>80</sup> With Iran's vast oil wealth and the Shah's close relations with the United States and Europe, both American and European companies eagerly sought to assist Iran in building nuclear power plants, with both France and Germany playing a vital role in beginning to build the Bushehr nuclear plant in 1975.<sup>81</sup> The Islamic Revolution ended nuclear cooperation and led to a lawsuit in which Iran sued France for return of Iranian funds lent to France. Additionally, the loss of access to foreign sources of nuclear materials served as impetus for Iran's new masters to avoid reliance on foreign sources and to develop an indigenous nuclear program.<sup>82</sup> Iran's preoccupation with the then ongoing Iran-Iraq War prevented serious dedication of resources to Iran's nuclear program, but the new Iranian leaders never forgot about Iran's nuclear ambitions.

Following Khomeini's death and the stabilization of Iran's economy, Rafsanjani and Khamenei sought a partner to help rebuild Iran's burgeoning nuclear infrastructure. Spurned by their former German and French partners, Iran found Russian and Chinese help in rebuilding Iran's nuclear program as no one else would.<sup>83</sup> Chinese-supplied undeclared nuclear materials from China and the United States' discomfort with nuclear proliferation provoked American antagonism towards Iran's nuclear program in spite of

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<sup>80</sup>Greg Bruno, 'Iran's Nuclear Program,' March 10, 2010. Accessed March 10, 2012. <http://www.cfr.org/iran/irans-nuclear-program/p16811>.

Unattributed, 'Iran Nuclear Sites: Bushehr Nuclear Power Plant,' February 9, 2010. Accessed March 10, 2012. <http://publicintelligence.net/iran-nuclear-sites-bushehr-nuclear-power-plant/>.

<sup>81</sup>Anton Khlopkov and Anna Lutkova, "The Bushehr NPP: Why Did It Take So Long?" *Center for Energy and Security Studies*, August 21, 2010. Accessed March 5, 2012. <http://ceness-russia.org/data/doc/TheBushehrNPP-WhyDidItTakeSoLong.pdf>.

<sup>82</sup>John Ahearne et al, *Internationalization of the Nuclear Fuel Cycle: Goals, Strategies, and Challenges*, (Washington DC; National Academies Press, 2008), 37–38.

<sup>83</sup>Khlopkov and Lutkova, "The Bushehr NPP: Why Did It Take So Long?" Accessed March 5, 2012. <http://ceness-russia.org/data/doc/TheBushehrNPP-WhyDidItTakeSoLong.pdf>.

Mohammad Sahimi, "Iran's Nuclear Program. Part I: Its History," *Payvand*, October 2, 2003, accessed March 8, 2012, <http://www.payvand.com/news/03/oct/1015.html>.

Khamenei's *fatwa* against nuclear weapons.<sup>84</sup> Efforts to rebuild nuclear program invoked American sanctions as the United States feared what a countries like Iran and Iraq with little transparency, vast oil wealth, and past willingness to use chemical weapons might do if they developed nuclear weapons.

Sanctions on Iran tightened in 1992 with the passage of the Iran-Iraq Arms Non-Proliferation Act of 1992, which effectively extended to Iran sanctions formerly solely targeted towards Iraq under the Iraq Sanctions Act of 1990. These new sanctions sought to deny Iran and Iraq access to both weapons of mass destruction (WMDs) and certain types of "advanced conventional weapons," including "long-range precision-guided munitions, fuel air explosives, cruise missiles, low observability aircraft, other radar evading aircraft, advanced military aircraft, military satellites, electromagnetic weapons, and laser weapons."<sup>85</sup> Sanction methods included prohibition against the United States government dealing with any sanctioned entity, prohibition against U.S. export licenses to any sanctioned entity, and most importantly, targeting of any country or foreign company which is known to "knowingly and materially to the efforts by Iran or Iraq" to acquire the aforementioned military items.<sup>86</sup> By targeting both the Iranian government/companies and foreign governments/companies who could potentially be involved in any quests to get WMDs or the mentioned conventional weapons, the United States widened the scope of sanctions from being merely unilateral to having international consequences outside of U.S.-Iran relations.

In 1995, sanctions against Iran tightened yet again with the issuance of Executive Order 12957 and 12959, which specifically prohibited American investment in Iran's energy industry, banned U.S. trade with Iran, and eliminated even third-party Iranian

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<sup>84</sup>Adam Tarock, "Iran's Nuclear Programme and the West," *Third World Quarterly* 27, no. 4 (2006): 647.

<sup>85</sup>Iran-Iraq Arms Non-Proliferation Act of 1992. October 23, 1992. Accessed March 10, 2012. <http://www.iraqwatch.org/government/US/Legislation/iran-iraq-nonprolif.htm> .

<sup>86</sup>Ibid.

access to American financial markets.<sup>87</sup> These sanctions did have significant economic effect on Iran, especially proving the vulnerability of Iran's oil revenue.<sup>88</sup> However, there was no notable political effect as Iranian markets adjusted with government intervention and higher domestic prices for commodities were blamed on the United States' new sanctions.<sup>89</sup> However, even with higher domestic prices for consumer goods and commodities, even American goods were still available in Iranian markets through third party suppliers establishing a "clear contradiction... between the official rhetoric [of both governments] and the reality of American goods flooding the country."<sup>90</sup>

The United States again tried to compel domestic change within Iran with the Iran and Libya Sanctions Act of 1996 (ILSA), which increasingly sought to target foreign companies who did more than \$20 million worth of business or invested that amount in Iran.<sup>91</sup> However, American sanctions that targeted foreign entities were extremely unpopular internationally, and especially in Europe where the European Union lodged a formal complaint against the United States alleging violation of principles of sovereignty and violation of rules of the World Trade Organization.<sup>92</sup> The United States, eager to avoid isolating Europe over Iran declined to enforce the ILSA and "to work together to

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<sup>87</sup>Executive Order 12957. March 17, 1995. Accessed March 10, 2012. <http://www.treasury.gov/resource-center/sanctions/Documents/12957.pdf>

Executive Orders 12595. May 9, 1995. Accessed March 10, 2012. <http://www.treasury.gov/resource-center/sanctions/Documents/12595.pdf>.

Executive Orders 13059. August 19, 1997. Accessed March 10, 2012. <http://www.treasury.gov/resource-center/sanctions/Documents/13059.pdf>.

<sup>88</sup>Akbar E. Torbat, "Impacts of the US Trade and Financial Sanctions on Iran," *The World Economy* 28, no. 3 (March 2005): 427–428.

U.S. Library of Congress, Congressional Research Service, *The Iran-Libya Sanctions Act (ILSA)* by Kenneth Katzman, CRS Report RL2071 (Washington DC: Office of Congressional Information and Publishing, 2006).

<sup>89</sup>Torbat, "Impacts of the US Trade and Financial Sanctions on Iran," 428.

<sup>90</sup>Ansari, *Confronting Iran* , 151.

<sup>91</sup>Iran and Libya Sanctions Act of 1996. June 18, 1996. Accessed March 12, 2012. [http://www.fas.org/irp/congress/1996\\_cr/h960618b.htm](http://www.fas.org/irp/congress/1996_cr/h960618b.htm).

<sup>92</sup>Jahangir Amuzegar, "Adjusting to Sanctions," *Foreign Affairs* (May–June 1997): 36.

Stefaan Smis and Kim van der Borght, "The EU-U.S. Compromise on the Helms-Burton and D'Amato Acts," *The American Journal of International Law* 93, no. 1 (Jan 1999): 227.

counter the threat to international security posed by Iran and Libya.”<sup>93</sup> Again, the American sanctions ultimately failed to have lasting effect because of their unilateral nature and lack of international support.

Iran’s ability, over time, to adjust to sanctions of the 1990s was due to the unilateral nature of the sanctions regime. The sanctions’ lack of political effect supports hypothesis #1 in that the sanctions did not affect the rise of the reform movement; however, they did further enable continued conservative influence by making economically/politically attractive to conservatives increased IRCG and parastatal control of certain sectors of the Iranian economy, as well as encouraged Iranian conservatives to ensure continued bastions of support for conservative Islamic Revolutionary ideology.

### **3. Growing Conservative Footholds in the Iranian Economy and Society**

As Rafsanjani moved to open Iran to the West, especially in economic matters, Khamenei and other conservatives sought to temper any liberalizing moves. Despite the expanded powers of the presidency post-Khomeini, the office of Supreme Leader still held large legal and moral authority. Khamenei exercised that authority by appointing political commissars across the governmental spectrum and by appointing leaders of the IRGC.<sup>94</sup> Combined with Khamenei’s moral authority, the Supreme Leader also has constitutional authority to appoint “appointing the heads of the judiciary, state radio and television, the regular armed forces... [and] control over Iran’s second most powerful institution, the Guardian Council”.<sup>95</sup> An important bastion of conservative power in Iran was Khamenei’s control of the Guardian Council, which has the sole power to accept or veto candidates for elections. Also critical in prolonged conservative influence on Iran was Khamenei’s control over the *bonyads* who after the Islamic Revolution had taken control over much of Iran’s industrial base, control through which the Supreme Leader

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<sup>93</sup> Smis and van der Borght, “The EU-U.S. Compromise on the Helms-Burton and D’Amato Acts,” 228.

<sup>94</sup> Wilfried Buchta, *Who Rules Iran? The Structure of Power in the Islamic Republic* (Washington DC; Washington Institute for Near East Policy, 2000), 47–48.

Sadjadpour, *Reading Khamenei*, 11.

<sup>95</sup> Sadjadpour, *Reading Khamenei*, 7.

could both reward and break supporters and opponents alike.<sup>96</sup> Control over the economic, judicial, military, and military-industrial levers of power ensured that any reformist or liberalization would have to also affect those bastions of power, therefore virtually requiring the consent or at least acquiescence of the Supreme Leader.

Sanctions following Khomeini's death and prior to the election of President Khatami had the dual effect of both polarizing Iran's political elite in regard to its view towards the United States and served as impetus for continued internalization of Iran's economy. There was a strong belief amongst conservatives that foreign sanctions are actually good for Iran, in that they internalize Iranian demand and support national businesses, ignoring opportunity costs inherent in the equation.<sup>97</sup> As sanctions threatened foreign sources of imports, capital, and export markets, the *bonyads* and IRGC-run enterprises benefited from both a lack of competition and monopolies on state projects, the latter trend which was to intensify when conservatives later regained control of government. It is now apparent that as the tide of reform and change began to sweep through Iran in the mid-1990s, domestic political change was not due to external factors as American backers of sanctions would have hoped but rather a long repressed internal desire for change after a long decade of war and economic deprivation. However, that economic deprivation was not caused in large part by economic sanctions, but rather those same economic sanctions set the stage for the Iranian economic framework wherein conservative bastions of power and influence were strengthened, supporting hypothesis #1 that rather than influencing the rise of reform actually strengthened the position of conservatives.

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<sup>96</sup>Ehteshami and Zweiri, *Iran and the Rise of Its Neoconservatives*, 33–34.

Sadjadpour, *Reading Khamenei*, 7.

<sup>97</sup>Stephen Szrom and David Pupkin, "Sanctions on Iran: Reactions and Impact," *AEI: Iran Tracker*, August 10, 2010. Accessed March 13, 2012. [http://wwwirantracker.org/us-policy/sanctions-iran-reactions-and-impact#\\_edn10](http://wwwirantracker.org/us-policy/sanctions-iran-reactions-and-impact#_edn10).

Sadjadpour, *Reading Khamenei*, 11.

## B. GROWTH OF THE REFORM MOVEMENT

On May 23, 1997, a relatively Iranian scholar of middling rank named Mohammad Khatami was elected President of Iran by 70% of the vote, with an unprecedented 80% voter turnout.<sup>98</sup> Khatami's election shocked Iran and the world in large part because he beat the charismatic Ali Akbar Nategh-Nouri, the establishment candidate who had the support of the major *bonyads*, the Association of Militant Clergy, the bazaar, and most perhaps importantly, the IRGC.<sup>99</sup> Khatami overcame the obstacles by focusing on Iran's domestic issues, espousing belief in the need to increase the role of Iranian civil society, fixing the economy, individual rights, and open international dialogue.

Interesting in the study of Iran's reform movement is that there was no reform movement. There was no party structure through which liberal politicians could formally garner support, few periodicals which supported a reformist agenda, and small chance that the Guardian Council would allow openly revisionist politicians to run for office. Iran's reform movement was in fact a reflection of long existing disagreements and tensions within the Iranian Islamic Revolution elite who had previously been unified by Khomeini's authority. These factions were represented by Rafsanjani and his allies from the center-right and by Musavi and Khatami from the center-left, and from 1989–1997 the center-right faction had control of government, especially after the 1992 parliamentarian elections where center-right candidates won the majority.<sup>100</sup>

While a full exploration of factionalism following Khomeini is a doctoral dissertation in itself, a basic understanding of factions and their importance in the 1992 Iranian *Majlis* and 1993 Iranian presidential elections is crucial towards understanding the subsequent rise of the reform movement. While Khomeini was alive, he would balance the factions within the overall revolutionary movement through force of his

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<sup>98</sup>Abrahamian, *A History of Modern Iran*, 186.

<sup>99</sup>Ibid., 185.

<sup>100</sup>Matthew C. Wells, "Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami," *British Journal of Middle Eastern Studies* 26, no. 1 (May 1999): 28–29.

personality, “skillfully balancing the power of the factions”.<sup>101</sup> With Khomeini’s death and his replacement by Khamenei who did not possess the same moral or religious authority that Khomeini did, factionalism increased. Rafsanjani’s economic and foreign policy reforms following his election as president in 1989 increased the divide between the various factions within Iranian politics and his political opponents increased their strength in the parliament.<sup>102</sup> While the 1992 *Majlis* election results implied popular support for Rafsanjani’s reforms, there were increasing signs of disunity amongst the political elite. The 1993 presidential election was even closer than expected, as disaffection on the political right caused them to submit their own candidate to challenge Rafsanjani but Rafsanjani won by a comfortable margin.<sup>103</sup> However, the splintering and polarization of the Iranian polity, especially on the right, was to have an enormous effect in the later election of Khatami. In the lead up to the 1996 elections, Iranian domestic politics were in confusion as conservatives were so rattled by a perceived threat of Rafsanjani’s political objectives that some encouraged the Revolutionary Guards to attack pro-Rafsanjani rallies and violence broke out between elements of the Revolutionary Guard and other law enforcement agencies.<sup>104</sup>

Allowed to run by the Guardian Council and seen as little chance of winning, Khatami upset Iranian politics by winning an overwhelming victory. The conservative candidate, Nategh-Nouri, had support from Khomeini on down from the conservative political establishment, the official support of the Revolutionary Guards, the *bonyads*, and the official support of the Association of Militant Clergy. However, official support from all these conservative organizations did not translate out to public support from either the members of those organization or the general public, as the Iranian people as a whole seemed to clamor for a change from the previous 18 years.<sup>105</sup> Lacking a hard-liner

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<sup>101</sup>Farzin Sarabi, “The post-Khomeini era in Iran: the elections of the fourth Islamic Majlis,” *Middle East Journal* 48, no. 1 (Winter, 1994): 90.

<sup>102</sup>Sarabi, “The post-Khomeini era in Iran: the elections of the fourth Islamic Majlis,” 91–94.

<sup>103</sup>Wells, “Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami,” 34–36.

<sup>104</sup>*Ibid.*, 36.

<sup>105</sup>Ehteshami and Zweiri, *Iran and the Rise of Its Neoconservatives*, 5.

Abrahamian, *A History of Modern Iran*, 185.

candidate, even hard-liners supported him giving Khatami support from the far right, the center-left, and the far left with even some support from the right as personified by support from the clergy establishment in Qom.<sup>106</sup> The reform movement had been rumbling in Iranian society for some time, but there had not previously been a candidate that could tap into the public disaffection with the status quo. Khatami was the perfect storm of a candidate marginally acceptable to the Guardian Council and the hardliners, yet vastly appealing to the electorate, hungry for change, because of his outsider status.

### C. CONCLUSION

There is a lack of evidence for any assertion that external sanctions affected domestic political change within Iran. Rise of the reformist was due to realignments within the political factions of the Iranian Islamic Revolution’s political elite. Mass support came from the people who welcomed Khatami’s message of a more open, inclusive Iranian politic. Conservatives learned their lesson, hunkered down in their bastions of power—the judiciary, the Supreme Leader-appointed councils, the Iranian Revolutionary Guard Corps, the bonyads, and the state-controlled industrial sector. While the reform movement as personified by Khatami was not in favor of a total revision of Iran’s Islamic government, they advocated for a lesser role for the clergy in the executive and legislative sections of government and, probably most unsettling for the conservative elites, a reengagement with the United States and the West.<sup>107</sup> All these goals were antithetical to the more conservative members of Iranian politics and they would use every tool and lever of power to stymie and obfuscate the reform movement’s agenda.

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<sup>106</sup>Wells, “Thermidor in the Islamic Republic of Iran: The Rise of Muhammad Khatami,” 37.

<sup>107</sup>Ibid., 31.

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## IV. DÉTENTE THWARTED? PROGRESS, ENGAGEMENT, AND REJECTION

### A. KHATAMI'S ADMINISTRATION AND POLICIES TOWARDS THE WEST

The election of President Khatami was a shock to both Iran and the rest of the world. The international community, and the United States in particular, was not prepared for a potentially revisionist administration in Iran. As mentioned in the previous chapter, Khatami was elected by promising increased transparency in governance, increased involvement of civil society in Iranian politics, increased emphasis on civil rights and renewed international engagement.

Successful international engagement, especially engagement with the United States, was a key to domestic reform but whether it was a critical factor in the reform movement's ultimate failure is debatable given the fundamental obstacle to reforms: the very structure of Iran's government. The Shia concept of *velayat-e faqih* from which the clerical leaders of the Islamic Republic of Iran claim their authority and the powers given to the Supreme Leader by the Constitution of Iran make unilateral policy changes by any branch of the Iranian government, other than the Supreme Leader, nearly impossible. However, since to question the role of the clergy in Iran's governmental system was to challenge the legitimacy of the state and the Islamic characteristic of the Republic, the only option to effect change was to attempt to institute the desired change within the governmental construct.<sup>108</sup> The question that one must address is whether reformist agenda was impeded by an externality like sanctions or whether the main impediment to the reform movement was Iran's governmental structure.

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<sup>108</sup>Reza Pahlavi, *Winds of Change: The Future of Democracy in Iran* (Washington: Regency Publishing, 2002), 18.

## **1. Impediment to Change: Iran's Governmental Structure**

President Khatami, from his own statements and campaign platforms, clearly realized that Iran could only fully join the modern world by engagement with the West and by having a government fully accountable to its constituency.<sup>109</sup> Khatami's most difficult objective was attempting to enact reform in a system where his office did not have the needed power or influence. Careful not to anger conservatives or be seen as a radical reformist, Khatami has "vowed to work within the system" by reaffirming his personal belief in *velayat-e faqih* as the basis of Iran's political system which served as reassurance to Khamenei and his followers who must have been concerned over the election of the opponent of the establishment candidate, Nateq Nuri, and the implications towards clerical control.<sup>110</sup> Shortly after the election of Khatami, Khamenei clearly cautioned the new government to remain true to the Iranian Islamic Republic's revolutionary values and to avoid sudden changes, perhaps as a subtle reminder of the Supreme Leader's constitutional authority.<sup>111</sup> Even though Khatami won the presidential election, there was still the issue of who had power and what the exercise of power would mean for both the conservatives and the reformists.

### ***a. Conservative Bastions of Power***

As previously mentioned in Chapter III, Iranian conservatives retained influence in Iran through their domination of both official and parastatal organizations within the Iranian power structure. The most important bastions of conservative influence, which enabled their continued relevance even during the apex of the reformist surge, proved to be the Iranian Parliament, the leadership of the armed services including the IRGC, the judiciary, the *bonyads*, and the office of the Supreme Leader. Not only did

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<sup>109</sup> Mohammad Khatami, *Islam, Liberty and Development* (Binghamton, NY: Binghamton University, Institute of Global Cultural Studies, 1998), 5–7.

<sup>110</sup> David Menashri, "Whither Iranian Politics" in *Iran Under Khatami: A Political, Economic and Military Assessment* by Patrick Clawson et al. (Washington Institute for Near East Policy, 1998), 15–16.

<sup>111</sup> *Ibid.*, 18.

Khatami have to contend with internal opposition to his overall agenda, he also had to contend with international opposition that both strengthened his opponents and discouraged his supporters.

In the days following the election of President Khatami, it became increasingly apparent that Khatami's promised reforms would be difficult to obtain as the Iranian Parliament, the *Majlis*, reelected Khatami's presidential election opponent, Nuri, as its speaker.<sup>112</sup> While the 1996 *Majlis* election results seemed to indicate an upsurge in support for the reformist agenda, the use of the judiciary by conservatives, as illustrated in the detention of Tehran's Mayor Karbaschi in 1998, to strike at the reform agenda and its supporters indicated that conservative opposition to reform was still solid. After the Islamic Revolution, Islamic scholars quickly replaced the "secular university educated judges" that had dominated the Iranian judiciary prior to the revolution, and when coupled with the constitutional authority of the Supreme Leader to indirectly appoint the judiciary, it is little wonder that the judiciary was and remains a redoubt of conservative thought.<sup>113</sup> Towards the end of Khatami's first term, the judiciary further showed its anti-reformist inclination by ruling against publications critical of the IRGC's role in Iranian politics.<sup>114</sup> Despite the increased parliamentarian support, the Supreme Leader's constitutional power and control of the Guardian Council ensured that any attempts to change the Iranian system of government can be controlled by both the veto power held by the Supreme Leader and by the vetting authority vested in the Guardian Council for any potential office seekers.

The role of the Guardian Council, in particular, has been critical for the conservative check on reformist advances as it is both insulated from popular pressure by virtue of being appointed by the Supreme Leader and at the same time provides a layer of separation between the dirty work of domestic politics and the Supreme Leader. The

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<sup>112</sup>Ibid., 19.

<sup>113</sup>Mehran Tamadonfar, "Islam, Law, and Political Control in Contemporary Iran," *Journal for the Scientific Study of Religion* 40, no. 2 (Jun 2001): 217.

<sup>114</sup>Ali Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," *Middle East Quarterly* (Fall 2008). Accessed April 30, 2012. <http://www.meforum.org/1979/the-revolutionary-guards-role-in-iranian-politics>.

Supreme Leader, through the Guardian Council, is able to steer the overall direction Iranian elections by indicating which political philosophies are acceptable and which are not with the Guardian Council then disqualifying candidates as needed.<sup>115</sup> As President Khatami sought parliamentarian support for engagement with the West, the other governmental institutions were busy limiting avenues of support for reformists, thus creating the public perception that Khatami's foreign relations strategy was not working. Without success abroad, the reformist agenda at home begins to fray towards the end of Khatami's first presidential term as other conservative centers of power such as the military embark on expansion, development, and acquisitions programs which in turn invite additional international scrutiny. The West, unwilling to make concessions without initial Iranian concessions, unwittingly hampers the West's best hope for governmental change in Iran. However, as inconvenient as international sanctions and international marginalization is for Khatami's reform movement, just as those sanctions and international isolation cannot solely be credited for Iran's economic troubles, they also cannot be credited with the ultimate failure of Khatami's reform movement. The very structure of Iran's government is designed to maintain ultimate power in the hands of the most conservative of all institutions, that of the Supreme Leader and his appointees.<sup>116</sup>

## **2. International Reactions to Iranian Overtures**

The United States executive branch saw in Khatami's administration an opening to engage Iran as "an opportunity to break with the rigidity of the past and put relations on a new, non-hostile footing"; however, there was no overwhelming demand in

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<sup>115</sup>Mehdi Moslem, *Factional Politics in Post-Khomeini Iran*, (Syracuse, NY: Syracuse University Press, 2002), 157, 181.

An excellent example of the Guardian Council's intervention and its domestic political effects is the 2004 *Majlis* election where over 4000 candidates were disqualified in what is now seen as the death knell of the reform movement. See CNN article "Iran Reformists' protest continues," January 12, 2004, accessed April 22, 2012. [http://articles.cnn.com/2004-01-12/world/iran.walkout\\_1\\_guardian-council-mohsen-mirdamadi-mohammad-reza-khatami?\\_s=PM:WORLD](http://articles.cnn.com/2004-01-12/world/iran.walkout_1_guardian-council-mohsen-mirdamadi-mohammad-reza-khatami?_s=PM:WORLD).

<sup>116</sup>Moslem, *Factional Politics in Post-Khomeini Iran*, 27–28.

American politics to meaningfully adjust U.S.-Iranian relations.<sup>117</sup> Iran, under Rafsanjani, had previously attempted to engage with the United States economically. Conversely, for all the Iranian rhetoric for increased engagement, Khatami continued to denounce Zionism, assist Hezbollah, increase domestic military production.<sup>118</sup>

In 1999, at the UN General Assembly, Iranian Foreign Minister Kharrazi replied when queried on Iran's possible response to unilateral easing of the United States' sanctions on Iranian food and carpet exports that Iran would "respond positively." Six months later in March 2000, U.S. Secretary of State Madeline Albright announced an easing of sanctions that was not reciprocated with any positive Iranian concessions, apparently due to Khamenei's opposition to détente with the West.<sup>119</sup> This undermining of Khatami's overtures towards the West in turn discouraged the United States and other observers on Iran's willingness to bargain in good faith. The rejection of the American easing of sanctions by Iran's conservatives utilization of their remaining levers of power supports this thesis' second and third hypothesis' that Iran's conservatives both sought to undermine the reform movement's attempts to engage the West while simultaneously undermining the reform movement's appeal in domestic politics by the reformist administration's lack of success in easing sanctions. As Sharam Chubin put it:

For the conservatives, the issue [was] how to use foreign policy to strengthen the regime, without giving the reformists a chance to take credit for its successes. For the reformists, the problem [was] how to use foreign policy to meet Iran's growing needs—including improving its international standing and increasing its influence and voice—and how to use the legitimacy gained thereby to push for further changes domestically.<sup>120</sup>

Khatami found some success in the continuation of Rafsanjani's efforts towards improving relations in the Middle East and the European Union, and even attempted to

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<sup>117</sup>Patrick Clawson, "The Khatami Paradox" in *Iran Under Khatami: A Political, Economic and Military Assessment*, by Patrick Clawson et al. (Washington Institute for Near East Policy, 1998), 1.

<sup>118</sup>Ibid., 7–8.

<sup>119</sup>Puneet Talwar, "Iran in the Balance," *Foreign Affairs* 80, no. 4 (Jul/Aug 2001): 62.

<sup>120</sup>Chubin, *Whither Iran?* 22.

continue Rafsanjani's spurned overtures towards the United States.<sup>121</sup> A notable exception is under Khatami, Iran ceased overt subversion of neighboring nations in the Persian Gulf. However, the efforts at détente in the Persian Gulf did not extend to disarmament, territorial disputes, or cessation of military growth.<sup>122</sup> Khamenei supported Khatami's efforts in the Persian Gulf, but the question of Iranian conservatives' sincerity, must be questioned in light of the continued military buildup, which supports this thesis' second hypothesis that conservative elements in Iran's government during the reformist administration intentionally sought to undermine Khatami's efforts at international engagement and, indeed, invoked international distrust and additional sanctions.

Because there was no positive reply to American gestures such as the lifting of sanctions on Iranian textiles and foodstuffs, there was no incentive for the United States to make further gestures in terms of easing of sanctions. However, there is no empirical evidence that continued American sanctions served any purpose other than to continually undermine the Iranian reform movement's agenda and furthering the cause of Iran's conservatives seeking to regain the support of the Iranian electorate. Conversely, the Iranian reform movement's appeal continued in the aftermath of continued American sanctions indicating that the effect of American sanctions in the late 1990s and early 2000s did not significantly factor in the Iranian electorate's decision on what course Iran was to take politically. However, it is undeniable that Iranian conservatives view Iran's foreign policy as inextricably linked with Iran's domestic policy and that any threat to the status quo in international affairs might further upset the domestic political balance in favor of the reformist.<sup>123</sup>

Ultimately, there was a scholarly consensus view that Khatami's overtures to the West and regionally in the Middle East should have been encouraged more aggressively, but carefully, lest Khatami and his allies be painted as "foreign agents."<sup>124</sup> As much as

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<sup>121</sup>Ibid.,28–30.

Ansari, *Confronting Iran*, 143–145.

<sup>122</sup>Chubin, *Whither Iran*, 29.

<sup>123</sup>Ibid., 20–21.

<sup>124</sup>Ibid., 23.

both the United States administration and reformers within Iran might have wished that foreign policy could be affected without domestic concerns, the fact remains that domestic affairs weigh heavily in charting foreign policy. Eager to limit the reformist administration's international overtures, conservatives focused on ensuring maximum use of domestic policy that they could control through their bastions of power, mainly in the national security realm.

## **B. IRAN'S MILITARY AMBITION AND ITS EFFECT ON IRAN'S FOREIGN RELATIONS**

As discussed in Chapters II and III, the military in Iran had by the end of the Iran-Iraq War become one of the major centers of conservative power. The constitutional reforms following the death of Khomeini only reinforced the armed services as a haven for conservatives. The military and Revolutionary Guard continued as a base of power for conservatives well into Khatami's administration, retaining influence by virtue of patronage from the Supreme Leader, revolutionary legitimacy as guardians of the Islamic Revolution, and a growing economic empire. There is no definite literature regarding whether conservatives during the period of Khatami's administration intentionally used Iran's military ambitions to derail Khatami's and the reform movement's international engagement goals, but it is undeniable that the actions of Iran's defense apparatuses had a direct effect on foreign powers and their relations with Khatami's administration. During Khatami's administration, direct correlations are seen between Iranian military ventures, deteriorating international views on Iran as a responsible partner, and the imposition of sanctions that in turn strengthened domestic detractors of the reform movement.

### **1. The Supreme Leader's Authority**

As previously mentioned in this chapter, the role of the Supreme Leader is central to the political administration of Iran. To fully understand the ability of conservatives to withstand the reformist movement and even thrive, one must also understand the authority given to the Supreme Leader, both informally (through revolutionary legitimacy) and formally (through the Iranian Constitution), and how this authority was used by Khamenei and conservatives to prevent and minimize the effect of the reformist

agenda. This section will directly address the relationship between Iranian conservatives, the Supreme Leader, the Iranian Armed Forces/national security apparatus and their effect on the reformist agenda.

The domestic balance of power that Khamenei faced upon assumption of the office of Supreme Leader was significantly different from the situation Khomeini enjoyed. Where Khomeini enjoyed both religious legitimacy via his religious scholarly credentials and revolutionary legitimacy through his steadfast opposition to the Shah's regime, Khamenei derived his legitimacy from the implied approval of Khomeini and election by the Assembly of Experts. As Khamenei was not an ayatollah prior to his elevation to Supreme Leader, he lacks the religious legitimacy that the concept of *velayat-e faqih* upon the basic governmental structure of Iran requires, making his acceptability and prestige to the Iranian public significantly lower than what Khomeini enjoyed.<sup>125</sup> This lack of true legitimacy initially forced Khamenei into the camp of religious conservatives who supported the *velayat-e faqih* and could lend their "religious qualifications to augment" Khamenei's grip on power.<sup>126</sup> However, even in relying on the conservative religious scholars for support, Khamenei must be careful as according to Buchta, 19 of 20 Grand Ayatollahs are believed to not support the concept of *velayat-e faqih*, with many Grand Ayatollahs both denying Khamenei's claim to the rank of Grand Ayatollah and even some questioning the legitimacy of the Supreme Leader.<sup>127</sup> With his scholarly legitimacy not as secure as Khomeini's, Khamenei has also had to rely on his other source of legitimacy to secure his absolute right to rule: the Constitution and the authority over the various government apparatus', especially the armed forces.

The Constitution names the Supreme Leader as commander in chief of the Armed Forces, gives the Supreme Leader the legal authority to both appoint and dismiss

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<sup>125</sup>Edward G Shirley, "Fundamentalism in Power: Is Iran's Present Algeria's Future?" *Foreign Affairs* Vol 74, no. 3 (May/June 1995): 38.

<sup>126</sup>Asghar Schirazi, *The Constitution of Iran: Politics and the State in the Islamic Republic*, trans. John O'Kane (London; IB Tauris, 1997), 78.

<sup>127</sup>Buchta, *Who Rules Iran?* 55.

Muhammad Sahimi, "Grand Ayatollah Montazeri's Fatwa: an Unfair Supreme Leader is Illegitimate," accessed April 15, 2012, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2009/07/grand-ayatollah-montazeris-fatwa.html>.

commanders of the regular armed forces and the Revolutionary Guard Corps.<sup>128</sup> As Supreme Leader, Khamenei has consistently appointed leaders of the regular armed forces and the revolutionary security forces, and would therefore exert enormous influence over their behavior and agenda. During the Khatami administration, the President had to contend with what the IRGC and the other parts of Iran's national security forces might do, as the President does not have direct control of the military or the IRGC. The role of the IRGC became especially important in domestic and foreign politics as the *Basij* under IRGC control were used to break up student demonstrations in the late 1990s and the IRGC's *Quds* Force actively and continually sought to export the Islamic Revolution and supported organizations like Hamas and Hezbollah.<sup>129</sup> Even the regular military forces continued and enhanced a "highly active schedule" of military exercises which unsettled its Persian Gulf neighbors, while increasing investment in suspected WMD programs and increasing Iran's indigenous military-industrial complex's capacity.<sup>130</sup> It is highly unlikely that the IRGC or the regular armed forces would have taken such provocative postures if Khatami and his reform agenda enjoyed the full support of Khamenei and his appointees, indicating subtle indications of the conservatives' disapproval and covert methods of derailing the reformist agenda. The Supreme Leader's military influence relied on three pillars: the regular and revolutionary armed forces, pursuit of a nuclear program, and the indigenous military-industrial complex and parastatal foundations which will be addressed in Chapter 5.

#### *a. Guardians of the Revolution*

From the immediate days following the Islamic Revolution in 1979, irregular militias held great authority as supporters of Khomeini and the Revolution. Once the regular military was suborned to the new revolutionary state and took on the Islamic revolutionary identity, it too was seen as a defender of the Revolution. The

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<sup>128</sup>Buchta, *Who Rules Iran?* 46.

<sup>129</sup>Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," accessed April 30, 2012.

<sup>130</sup>Michael Eisenstadt, "The Military Dimension," in *Iran Under Khatami: A Political, Economic and Military Assessment* by Patrick Clawson et al. (Washington Institute for Near East Policy, 1998), 72–74.

<sup>130</sup>Michael Eisenstadt, "The Military Dimension," in *Iran Under Khatami: A Political, Economic and Military Assessment* by Patrick Clawson et al. (Washington Institute for Near East Policy, 1998), 74–76.

IRGC was an early ally of conservatives within Iran, allying itself with the “Islamic Republican Party... all close aides and disciples of Ayatollah Khomeini,” much to the chagrin of President Ban-Sadr.<sup>131</sup>

The efforts of both the regular armed forces and the Iranian Revolutionary Guard Corps during Iran-Iraq War greatly added to the mystique of the armed forces as defenders of both Iran and the Revolution.<sup>132</sup> The respect with which the IRGC and associated *Basij* militias are viewed for their service and martyrdom during the Iran-Iraq War led to the institutionalization of the revolutionary security services, and has led to their permutation into all levels of Iranian society.<sup>133</sup> In return for the Supreme Leader’s economic and governmental support, the IRGC and associated *Basij* militias have acted as the fist and shield of the Iranian regime both externally and internally. Since the Iran-Iraq War, the IRCG has increased both its organizational levels and capabilities, becoming a more regular military entity yet retaining its revolutionary flavor by its “export-of-the-revolution activities... and its involvement in ensuring popular compliance of Islamic law.”<sup>134</sup>

Due to the religiousness associated with members of the revolutionary security services, it is inconceivable, at present, that they would refuse to protect the conservative interests represented by the clerical establishment of Iran as represented by the Supreme Leader or that the revolutionary security services would not act if there was a perception that the Islamic Revolution was being threatened internally. The influence which the IRCG and other revolutionary security services have in Iran and potential influence on Iran’s foreign affairs is evidence in support of this thesis’ second hypothesis that conservative-leaning organizations within Iran might pursue behavior that might thwart attempts by the reformist administration at normalization. However, ideological

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<sup>131</sup>Kenneth Katzman “The Pasdaran: Institutionalization of Revolutionary Armed Force,” *Iranian Studies* 26, no. 3/4 (Summer - Autumn, 1993): 392.

<sup>132</sup>Frederic Wehrey et al., *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran’s Islamic Revolutionary Guards Corps* (RAND National Defense Research Institute, 2009), 24.

<sup>133</sup>Frederic Wehrey et al. *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran’s Islamic Revolutionary Guards Corps* (RAND National Defense Research Institute, 2009) 26–28

<sup>134</sup>Katzman, “The Pasdaran: Institutionalization of Revolutionary Armed Force,” 391.

interests are not the only interests critical to the IRGC as political, economic, and social interests as represented by their influence in the economy of Iran.

***b. Iran’s Nuclear Program***

The final pillar of the Supreme Leader’s military influence, and therefore potential indirect influence over foreign affairs, is the development of Iran’s nuclear program. While Rafsanjani, Khatami, and Khamenei were in favor of Iran developing an indigenous nuclear program, doubtlessly Khatami saw Iran’s nuclear program as a possible obstacle to his international engagement goals. A strong nationalist, Khatami supported Iran’s nuclear program, appointing a competent administrator to head the Atomic Energy Organization of Iran.<sup>135</sup> What is less clear is whether Khatami supported the potential weaponization of Iran’s nuclear program, given his campaign platform of transparency/rule of law and Iran’s adherence to the Non-Proliferation Treaty.

Karim Sadjadpour states that Khamenei may have seen international opposition to Iran’s nuclear program as attempts to repress Iranian self-sufficiency.<sup>136</sup> A member of the Iranian parliament stated that “the Supreme Leader ‘is the main arbitrator of the different levels of nuclear policy,’” indicating that Khatami’s preferences for the direction of Iran’s nuclear program may not have mattered, even if Iran’s nuclear policy damaged his foreign policy goals.<sup>137</sup> Indeed, damaging Khatami’s foreign policy goals may have been Khamenei’s goal. Certainly, comments made by the head of the IRGC in 1998 regarding Iran’s nuclear and chemical weapon aspirations were troubling to the international community, especially the influence that the head of the IRGC could have on Iran’s stance concerning WMD programs.<sup>138</sup> What is clear is that Iran’s continued pursuit of a nuclear program drew continued international opposition from the West, especially the United States, which continually campaigned to limit Iranian access to

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<sup>135</sup>Eisenstadt, “The Military Dimension, 81.

<sup>136</sup>Sadjadpour, *Reading Khamenei*, 22–24.

<sup>137</sup>David E. Thaler et al., *Mullahs, Guards, and Bonyads: An Exploration of Iranian Leadership Dynamics* (RAND National Defense Research Institute, 2010), 102–103.

<sup>138</sup>Eisenstadt. “The Military Dimension, 83.

international nuclear markets.<sup>139</sup> As will be discussed in the next chapter, Iran's unwillingness to make fully transparent its nuclear program led to the severe deterioration of relations between the United States and Iran in the post-9/11 world, in spite of previously progressing relations.

### **C. CONCLUSION**

This chapter sought to shed light on the difficulties faced by Iranian reformists in implementing their agenda, particularly knowledge on whether international sanctions impeded the reform movement. As Chapter III established that the Iranian reform movement was mainly a product of internal Iranian divisions and owed very little to the effect of sanctions, such is the case in regard to the effect of sanctions on the reform movement's difficulties. The main impediment to change was Iran's constitutionally mandated governmental structure wherein the Supreme Leader held the preponderance of power and political influence. Supporting this thesis' first hypothesis is the linkage between the effects of sanctions and the faltering of the Iranian reform movement in the indirect, and unintentional, economic and political boost that conservative centers of power like the IRGC and parastatal foundations received because of the effect sanctions had on preventing fair and open economic interaction between Iran and the rest of the world. Thus strengthened, the aforementioned centers of conservative power used their legal and tangential influence to continually stymie and obfuscate the reform agenda, by continually pushing Iran's government into internationally incomprehensible behavior, such as Iran's security services' ever-continuing push for increased militarization and pursuit of WMD programs, which in turn supports this thesis' second hypothesis.

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<sup>139</sup>Ibid., 81–83.

The reform movement, which began with so much promise of open governance and rule of law, was ultimately doomed by the rule of law, the governmental structure created by the Constitution. The governmental structure of Iran ensured that any change that was not fully supported by the Supreme Leader would ultimately fail. While not fatal to the reform movement, international isolation created by sanctions only enhanced the position of conservative bastions of power while denying some of the potential legitimacy Khatami's administration might have garnered domestically had its international engagement goals been more successful.

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## **V. CONSERVATIVE RESURGENCE IN IRAN**

### **A. BEGINNING OF THE END FOR THE IRANIAN REFORM MOVEMENT**

In a way, to say that conservative influence in Iran increased in the post-9/11 world is incorrect. A more correct assessment would be that reformist influence waned due to steady pressure from conservatives, world events, and changing priorities for the Iranian electorate. Still, the period immediately preceding Khatami's 2001 reelection and his second administration merit close study in seeking to answer this thesis' question regarding the effects of sanctions on Iranian domestic politics, particularly the growth and decline of the reform movement and the reemergence of the conservative movement. Evidence in previous chapters shows minimal effect on the formation and growth of the reform movement, while revealing how sanctions had second-order effects in making possible, and reinforcing, conservative centers of power (especially the revolutionary security services and their economic empire). This chapter will seek to further explore any effects of sanctions on the continued demise of the reform movement and the upsurge of the conservative movement following the 2001 reelection of Khatami.

#### **1. Increasing Influence: Centers of Conservative Power**

Khatami entered his first administration with the strong support of the majority of the Iranian electorate and with Iranian conservatives either fragmented or unsure of how to confront the winds of reform. As the first executive not directly connected to Khomeini's patronage, Khatami charted not only the Iranian presidency's relationship with the other institutions of Iran's government but also attempted to implement the reforms which he promised. Khatami was effectively attempting to chart the course in which Iran would go, having previously been rudderless following almost two years of revolution, eight years of war, and seven years of consolidation. Unfortunately, Khatami quickly learned that the powers allowed to the Iranian president, and even the Iranian parliament, were insufficient to make the changes the reformist wished.

Khatami's second administration saw increased political and economic activity by the reform movement's conservative opponents. While not the only conservative

strongholds, the increased involvement in politics of the IRGC and the judiciary was especially telling for the Iranian reform movement's longevity. Focus on the IRGC and judiciary's activities also allows us to see the effect of sanctions on conservatives as the IRGC's political influence can be at least partially attributed to their increased economic power and, therefore, the effects of sanctions whereas the judiciary's influence is wholly outside any direct connection to the effect of sanctions.

## **2. Increasing Economic Power of the IRGC**

As mentioned in previous chapters, the economic and political power of the IRGC and parastatal foundations continually and steadily increased. State-controlled industry had been increasing since the revolution, and increased pace in the early 2000s.<sup>140</sup> Of particular interest in the study of the IRGC's economic power is the relationship between the IRGC, the Iranian government, and military-dominated industries. This relationship is indicative of the economic, and subsequent political, power that the IRGC was gaining even during the reformist administrations of Khatami.

### ***a. Iran's Military-Industrial Complex and Parastatal Foundations***

As discussed in Chapter II, the military and state domination of Iran's economy began almost immediately following the Islamic Revolution with the revolutionaries' takeover of state-owned industries and parastatal foundations. Shut off from their former American sources of weapons and actively precluded from participation in the international weapons market, Iran increasingly sought to decrease its reliance on foreign sources of weaponry by developing an indigenous military production industry. In the aftermath of the Iran-Iraq War, as the Supreme Leader and even Rafsanjani sought to stabilize the Iranian system of government, it was easier to reward the IRGC for its loyalty and to create stability at a time where both Khamenei and Rafsanjani were looking into downsizing the scope of Iranian government, so the argument is made that Rafsanjani effectively "bought off" the IRGC by giving them

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<sup>140</sup>Kaveh Ehsani, "Iran: The Populist Threat to Democracy," *Middle East Report* no. 241, Iran: Looking Ahead (Winter, 2006): 8.

increasing control of the military-industrial complex.<sup>141</sup> Aided by growing informal social networks, the IRGC and its associated businesses were awarded no-bid contracts that further increased the IRGC's economic influence in Iran.<sup>142</sup> Of important note, it was sanctions and barriers-to-entry created by sanctions that created the enabling economic conditions under which IRGC-controlled businesses prospered as foreign firms were either unable or unwilling to engage in Iranian development and other native Iranian firms were unable to compete economically with the scale of industry the IRGC and its affiliates could afford due to governmental support.

Additionally, the government also increased the role of IRGC in the *bonyads*, with a former minister of the Revolutionary Guards serving as director of the *Bonyad-e Janbazan Va Mostaz'afan*, a politically and economically influential foundation.<sup>143</sup> Indirectly controlling several powerful *bonyads*, the IRGC had a source of political power as they could use the wealth generated by the *bonyads* to gain political patronage and further immerse itself in the economic and political fabric of Iran.<sup>144</sup> The economic power of the *bonyads* has even been used to develop Iranian business outside of Iran, possibly in violation of sanctions. It is not insignificant that the Supreme Leader appoints the leaders of many of Iran's largest *bonyads* and filled vacancies with veterans of the IRGC, and that the profits from the *bonyads* are used exclusively for the benefit of conservative interests, with even some speculation of possible ties to Iran's nuclear program due to proximity of *bonyad* offices to suspected Iranian nuclear sites.<sup>145</sup> Using the economic resources of the *bonyads*, conservatives worked during the Khatami administration to negate and diminish popular support

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<sup>141</sup>Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," accessed April 30, 2012.

<sup>142</sup>Mehdi Khalaji, "Iran's Revolutionary Guard Corps, Inc.," Washington Institute for Near East Policy, PolicyWatch, no. 1273, August 17, 2007, accessed April 30, 2012.<http://www.washingtoninstitute.org/templateC05.php?CID=2649>.

<sup>143</sup>Buchta, *Who Rules Iran?* 68.

<sup>144</sup>Thaler et al., *Mullahs, Guards, and Bonyads*, 57–59.

<sup>145</sup>Khalaji, "Iran's Revolutionary Guard Corps, Inc.," accessed April 30, 2012.

Wehrey et al., *The Rise of the Pasdaran*, 58–59.

While the focus of this thesis is not the IRGC's economic roles within Iran, the issue of the IRGC's economic influence and how this economic strength has translated to political strength for Khamenei and conservatives is critical in understanding the role of the IRGC as a pillar of political influence for conservatives. We see that there is a linkage between the IRGC, the parastatal foundations, and the Supreme Leader creating a level of influence that was, at best, disapproving of the reformist agenda and, at worst, openly acting to counter the reformist agenda. Reformists could not counter the conservative influence, as they neither had control of the revolutionary security services nor the ability to appoint the leaders of those services or affiliates. Nor could reformist diminish the role of conservatives in industry and the parastatal foundations without risking popular backlash because of the role of the foundations in everyday Iranian life and the economic activity generated by industry.

### ***b. Defense Industries Organization***

In the period following the Iranian Revolution, the revolutionary government under Khomeini allocated parastatal industries to different revolutionary authorities. In the period preceding the Iran-Iraq War and during the war inclusive, the DIO “filled the gap” between Iran’s military material needs and what Iran could actually import.<sup>146</sup> As the war progressed, the DIO increasingly took on the task of manufacturing increasingly sophisticated military wares with dual use capabilities. This capacity allowed DIO companies like Iran Electronic Industries and Integrated Electronic Industries to convert to consumer goods after the Iran-Iraq War.<sup>147</sup> In 2002, during Khatami’s second administration, with the Iranian economy continuing its liberalization, a Turkish cellphone company attempted entry into the Iranian market. This threat to the IRGC’s telecommunication industry was met by opposition from the Council of Guardians and the *Bonyad-e Janbazan Va Mostaz’afan*, an IRGC-controlled parastatal foundation.<sup>148</sup> While not a direct result of the effects of sanctions, this legal and

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<sup>146</sup>Alfoneh, “How Intertwined Are the Revolutionary Guards in Iran’s Economy,” 3.

<sup>147</sup>Ibid., 3.

<sup>148</sup>Ibid., 4.

bureaucratic obstruction of free enterprise is indicative of the level of economic and political influence the IRGC had been able to accrue even during the reformist administrations.

Without serious international competition, in part due to international sanctions, IRGC-run industries were able to capitalize and achieve market dominance that provided the IRGC with the funds needed to “support not only IRGC operations but also augment the personal wealth of the IRGC leadership.”<sup>149</sup> These funds were also used to influence the Iranian electorate as will be described in a following section entitled “Low Politics: Bribing the Populace.”

*c. State-Sponsored: Growth of the Ghorb*

Similarly and perhaps more importantly than the IRGC-run DIO was an organization known as *gharargah sazandegi khatam alanbia* (Ghorb), which also had an enormous effect on the IRGC’s domestic influence.<sup>150</sup> Established in the aftermath of the Iran-Iraq War, the Ghorb sought to capitalize on the IRGC’s institutional engineering capabilities and to become a profitable proposition for the IRGC and the government that, under Rafsanjani and Khamenei, was seeking to reduce government liabilities. Thanks to the strong support of the Iranian government, Ghorb has become “one of Iran’s largest contractors in industrial and development projects,” largely through no-bid contracts or, in the case of oil field development, in large part due to the stifling effects sanctions had on foreign company participation in the Iranian economy.<sup>151</sup> This IRGC domination of the construction industry is analogous to the growth of Iran’s indigenous military-industrial complex and is evidence in support of this thesis’ first hypothesis that sanctions created the economic framework wherein conservative forces gained economic power.

Still, the question posed here is how economic dominance by the IRGC and its subsidiary translates out to political power. After all, in the system of government

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<sup>149</sup>Ibid., 3.

<sup>150</sup>Wehrey et al., *The Rise of the Pasdaran*, 59.

<sup>151</sup>Ibid., 60–62.

Alfoneh, “How Intertwined Are the Revolutionary Guards in Iran’s Economy,” 3–4.

more common in the West, even economic powerhouses cannot exercise political power sufficient to seriously affect the electorate due to institutions. However, such is not the case in Iran, especially in the case of the sway the IRGC and other conservative organizations could have over the populace due in large part to the tacit approval of the some institutions in the state like the judiciary and the office of the Supreme Leader. With similar values and ultimate goals to that of other state institutions, the IRGC and its affiliate industries were able to present themselves as champions of both the Islamic Revolution and the Iranian populace through their works.

#### ***d. Low Politics: Influencing the Populace***

Drawing upon scholarly literature, this chapter has established conclusively the participation of the IRGC in the Iranian economy and how that economic activity was made possible in large part due to the effects of sanctions. Thus far, less clear has been the connection between the IRGC, its economic activities, and effect on the electorate that brought about the end of the reform movement. The IRGC's economic power has manifested itself politically through the public reputation the IRGC cultivates through its public-works projects, growth of the *Basij* militias, and the *bonyads*.

One of the easiest ways to influence a population is to make a positive impression by delivering what they need. As illustrated by the United States' own Tammany Hall-style politics of the late 19th century, client-patron politics where the patron delivers on improvements is a powerful tool. The IRGC, through its industrial affiliates, ably created good will towards the IRGC and the conservative agenda by building roads, buildings, pipelines and other infrastructure projects in Iran, especially the rural areas.<sup>152</sup> Additionally, the construction projects were used as an opportunity to expand the ranks of the *Basij* militias who did much of the work in the rural areas and were seen as a positive rather than a negative, as they were increasingly seen in urban areas. By building rural infrastructure, while bolstering the ranks of IRGC-affiliated militias, conservatives began to enjoy popular support rurally to counterbalance the urban

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<sup>152</sup>Wehrey et al., *The Rise of the Pasdaran*, 67–68.

support for the reformists. As the reform movement appeared to present a greater threat to Khamenei and the concept of theocracy in Iran, the IRGC and the *Basij* militias became an increasingly important and effective tool for spreading the conservative message.<sup>153</sup> As the Iranian electorate as a whole grew increasingly dissatisfied and disenchanted with the results delivered by the reform movement, they would remember the public works provided by the IRGC and be thus influenced.

## B. CHANGES IN IRAN'S DOMESTIC POLITICS

As described in this and the previous chapter, there was a marked increase of the IRGC's participation in Iranian domestic politics. Using political influence they began to accrue by heading industry and the *bonyads*, several influential leaders of the IRGC began involving themselves in politics, giving the impression that “the IRGC [was] emerg[ing] as a sort of praetorian guard for conservatives seeking to displace Khatami supporters from political power.”<sup>154</sup> However, the IRGC was not alone as a conservative center of power working to counter the reform movement, with other conservative-dominated institutions of the Iranian Republic also working to forestall the reformist agenda.

In 2001, Mostafa Tajzadeh, Iran's deputy interior minister and a Khatami confidant, was sentenced to a year in prison by the conservative judiciary for supposed voter fraud in the 2000 parliamentary elections. Outsiders saw this as the judiciary flexing its political muscle and communicating to Khatami that conservatives would not easily accede to the reformist agenda and also seen as an attempt by conservatives to prevent Tajzadeh's playing a significant role in the 2001 presidential election.<sup>155</sup> The results of the 2003 municipal elections saw a vast increase in representation of conservative politicians at the local levels, setting the tone for the 2004 *Majlis* and 2005 presidential elections.<sup>156</sup> The support of the conservative judiciary, along with the

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<sup>153</sup>Ibid., 80.

<sup>154</sup>Alfoneh, "The Revolutionary Guards' Role in Iranian Politics," accessed April 30, 2012.

<sup>155</sup>Talwar, "Iran in the Balance," 58.

<sup>156</sup>Thaler et al., *Mullahs, Guards, and Bonyads*, 58.

residual opposition from the IRGC and consistent interference by the Council of Experts, was crucial in obstructing the reform movement. This obstruction and the seeming failure of the reform movement to deliver on its promises left the Iranian electorate beginning to feel disenchanted.

By 1998, the beginning signs of disaffection with Khatami began to emerge amongst his supporters as dissatisfaction with domestic change, which drove some of those reformist to demonstrations in support of Ayatollah Montazeri, which in turn “angered... hardline conservatives” who were dissatisfied with Khatami’s administration’s efforts to maintain order. This disaffection within the reform movement and the subsequent conservative backlash against reformist politicians signaled the lasting strength of conservatives within the state governmental apparatus and the political fragmentation of the reform movement that conservatives would later exploit.<sup>157</sup> As the reform movement was increasingly stymied by conservatives within Iran’s governmental structure, popular opinion began to ferment against the reform movement but there was still not a divisive domestic issue upon which conservatives could capitalize. However, there soon reappeared an issue: Iran’s nuclear program.

## **1. Iran’s Nuclear Issue**

Iran’s nuclear program was an issue that greatly affected Iran’s domestic politics as it both invited external sanctions and, as outlined in Chapter IV, presented Khatami with a thorny foreign policy issue. While firmly in Khatami suspended nuclear enrichment program during negotiations with the IAEA, but his willingness to suspend Iran’s enrichment programs during negotiations was dangerous politically as it allowed conservatives to question Khatami’s domestic politics and dedication to Iran’s nuclear program. This placed Khatami in an awkward international position wherein he had to both seek normalization of relations and negotiations regarding Iran’s nuclear program, while trying to reduce the burden of sanctions without being portrayed as an appeaser to the domestic electorate.<sup>158</sup> What hurt Khatami and the reform movement in general is

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<sup>157</sup>Clawson, “The Khatami Paradox,” 2–3.

<sup>158</sup>Ehsani, “Iran: The Populist Threat to Democracy,” 4–5.

that there were no concrete concessions by the United States and the international community for the Iranian suspension of enrichment programs, leading the Iranian electorate to further conclude that the path of the reform movement was not working, especially in keeping Iran strong internationally. This development in Iranian politics partially supports this thesis' third hypothesis that western sanctions negatively affected the reform movement's attempts to bring Iran in line with international norms and increased the Iranian electorate's support for the conservatives that would manifest itself in the 2005 presidential election, especially with the affect that President Bush's 2002 State of the Union Address had on polarizing Iran's foreign policy.

## **2. Khamenei's Influence on Iran's Domestic Politics**

Khamenei leans towards retaining Iran's revolutionary character, advocating that Iran cultivate "loneliness" and avoid the contamination that accompanies globalization, especially as the United States dominates the global market. Any emulation of the West or the United States in particular is suborning the Islamic Revolution, and thereby Islam, to the West.<sup>159</sup> Khamenei views the United States as an "existential threat," and is therefore weary of any attempts to normalize relationships with the United States.<sup>160</sup> This disapproval towards policies of engagement and normalization would naturally prejudice Khamenei against the reform movement's foreign policy goals, which would in turn cement Khamenei's support for conservatives in Iran's domestic politics. Continued U.S. sanctions and their effects only further served to prejudice Khamenei against rapprochement with the United States and the West.

## **C. THE FAILURE OF THE REFORM MOVEMENT'S FOREIGN POLICY AMBITIONS**

Iran's 2003 decision to restart enrichment activities led the EU to end its "constructive engagement" policy and impose sanctions, which was a victory for the United States in its goal to diplomatically isolate Iran.<sup>161</sup> This diplomatic isolation

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<sup>159</sup>Chubin, *Whither Iran?* 24.

<sup>160</sup>Milani, "Tehran's Take: Understanding Iran's U.S. Policy," 47.

<sup>161</sup>*Ibid.*, 55.

benefited Iranian conservatives, but the sanctions only had minimal effects on Iran's economy and did not affect or alter Iran's behavior. As there was no threat of additional consequences beyond sanctions, the EU and American sanctions in the early 2000s only served to reinforce the conservative position that negotiations with the West were futile. Without a doubt, the beginning of the end for rapprochement between Iran and the West came with President Bush's 2002 State of the Union Address in which he included Iran as part of the "axis of evil."

### **1. Axis of Evil**

In the aftermath of 9/11, there was actually a significant reconsideration by both the United States and Iran on possible realignments in their mutual goals in the Middle East, with significant cooperation appearing possible on the subject of Afghanistan.<sup>162</sup> However, President Bush's inclusion of Iran in the "axis of evil" in 2002 convinced Iranian conservative political elite that Washington's goal was to change and/or seriously undermine the structure of the Islamic Republic.<sup>163</sup> The United States' subsequent actions against Iraq further confirmed, to Iran, this suspicion of the Bush's administration desire for regime change in Iran. As a result, "Iran [was] not tempted by the various carrots offered by European negotiators, with tepid backing from Washington, to induce Iran to cease enrichment."<sup>164</sup> With little incentive to alter its nuclear program's progress, Iran continually isolated itself by acting outside international norms concerning its nuclear program.

The inclusion of Iran in company with a failed state like North Korea and a dictatorship like Iraq, there was no more room for negotiations by the reformist administration. There was no reward domestically for Khatami to continue seeking a normalized relationship with the West and the public insult to Iran served as confirmation to conservatives and the Iranian electorate that the United States was not to be trusted and

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<sup>162</sup>Thaler et al., *Mullahs, Guards, and Bonyads*, 88–89.

Daniel Heradstveit and G. Matthew Bonham, "What the Axis of Evil Metaphor Did to Iran," *Middle East Journal* 61, no. 3 (Summer, 2007): 427.

<sup>163</sup>Heradstveit and Bonham, "What the Axis of Evil Metaphor Did to Iran, 434–435.

<sup>164</sup>Ehsani, "Iran: The Populist Threat to Democracy," 4.

only sought to deny Iran its full rights as a sovereign nation. There was much speculation that conservative factions within Iran purposefully were involved in the discovery of weapons en-route to the Palestinian territories, a discovery which may have tilted the scales towards Iran's inclusion in the Axis of Evil.<sup>165</sup> With the invasion and regime change in Iraq, conservatives like Khamenei grew in their belief that the eventual goal of the United States was regime change in Iran, which would obviously be unacceptable for Khamenei, the conservative clergy who support the *velayat-e faqih*, and the IRGC that depends on the support from the Iranian government for its economic and political influence.

#### **D. CONCLUSION**

In June 2005, Iran held its ninth presidential election of the post-Islamic Revolutionary era. Khatami, unable to run due to consecutive term limits, was on the sideline with the battle waged between Tehran's conservative mayor, Mahmoud Ahmadinejad and ex-President Rafsanjani. The run-up to the 2005 Presidential election was marked with increasing conservative interference from the Guardian Council in barring numerous reformist candidates from the 2004 parliamentary election, which was in turn partially boycotted by reformist parliamentarians in protest leading to conservative take-over of the Iranian parliament.<sup>166</sup> The Iranian electorate, ready for a change and leaning towards the conservative candidate who had tacit approval from Khamenei, rejected reformism and the more moderate Rafsanjani by nearly 2/3s of the vote.<sup>167</sup>

This chapter has traced the growth of the IRGC's economic power, the reassertion of conservative power by the various conservative institutions closely tied to the Supreme Leader, and the world events that led to the collapse of Khatami's foreign policy ambitions and ultimately, the Iranian reform movement. While sanctions did have a

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<sup>165</sup>Thaler et al., *Mullahs, Guards, and Bonyads*, 89.

Heradstveit and Bonham, "What the Axis of Evil Metaphor Did to Iran," 423.

<sup>166</sup>Arshin Adib-Moghaddam, "The Pluralistic Momentum in Iran and the Future of the Reform Movement," *Third World Quarterly* 27, no. 4 (2006): 666.

<sup>167</sup>Ibid., 666–667.

significant effect on the IRGC's economic growth, sanctions cannot be tied to the development of the Iranian system of government, which is mostly responsible for the ultimate failure of the Iranian reform movement. Neither can sanctions be tied to the foreign affairs interactions between the United States and Iran that failed in the post-9/11 era. The effects of sanctions can be tied to the deeper underlying cause for sanctions, Iran's nuclear program, in a rather self-fulfilling manner: it can be argued that sanctions drove Iranian desire for regional and international independence which they identified with a sovereign nuclear program, which in turn invited additional international scrutiny and sanctions due to lack of transparency.

If read by itself, this chapter might lead one to believe that the effects of sanctions tilted Iran's internal balance of power in favor of the conservatives. However, this chapter must be taken into consideration with the previous evidence to determine what role, if any, did sanctions and their effects have on Iran's domestic politics and the reform movement in particular.

## VI. CONCLUSIONS AND IMPLICATIONS

### A. HOLISTIC EFFECTS OF SANCTIONS ON IRAN

One of the goals of the Islamic Revolution was to establish a just economic society, taking issue with the centrally run economy of the Shah and the corruption it created. What the sanctions have effectively done was create the economic framework where “elite group of clerics and their cronies” have control of major segments of the economy and industry, stifling private enterprise through both political and economic dominance, aided in part by the lack of foreign participation in Iran’s domestic economy.<sup>168</sup> This thesis’ research question was whether international sanctions affected Iranian domestic politics, bringing about the political reform movement of the 1990s and the subsequent conservative resurgence and proposed three hypotheses to explain the effect of sanctions on Iran.

#### 1. Post-Islamic Revolution

From the beginning of the Islamic Republic, Iran has faced substantial opposition from the United States, both economically and politically. In order to secure its national economic assets, the revolutionary government under Khomeini nationalized and consolidated significant portions of the previous Iranian economy.<sup>169</sup> Faced with international isolation, due to both internal politics and international response, Iran was forced by its existential struggle against Iraq in the 1980s to develop its indigenous weapons production as it was barred from its former primary weapons and munitions supplier.<sup>170</sup> This effect of sanctions on Iran’s ability to purchase weapons on the international market led to the rise of Iran’s military-industrial complex, largely under the control of the IRGC and its ancillary organizations. Furthermore, while the sanctions increased transactional costs on Iran’s foreign military purchases, Iran was still able to

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<sup>168</sup>Kenneth Pollack and Ray Takeyh, “Taking On Tehran,” *Foreign Affairs* 84, no. 2 (Mar - Apr 2005): 25.

<sup>169</sup>Abrahamian, *A History of Modern Iran*, 178.

<sup>170</sup>Anoushiravan Ehteshami, “Iran Boosts Domestic Arms Industry,” *Jane’s International Defence Review* (April 1, 1994): 72.

participate in the international weapons market and even capitalized on corruption inherent in many sanctions regimes to do business with the imposer of the sanctions.<sup>171</sup> It can be well argued that U.S. sanctions on Iran following the creation of the Islamic Republic did hurt Iran in the short term by increasing transactional cost and hampering Iran's ability to prosecute the Iran-Iraq War, but it can also be argued that the sanctions were a blessing in disguise for Iran, the Iranian clergy elites, and revolutionary conservatives as it forced Iran to rely on and develop its own industrial capacities. With the IRGC in firm control of the industrial and economic infrastructure of Iran and the Iranian clergy led by Khomeini, and later Khamenei, firmly in control of the IRGC through informal (religious) and formal (Iranian constitution) sources of authority, the longevity of the Islamic Revolution was assured to proceed along the philosophical and legal framework outlined by Khomeini. The enduring nature of the influence control over Iran's industry and *bonyads* afforded Iranian conservatives, along with control over key institutions of the Iranian governmental structure like the Council of Guardians, and Expediency Council, essentially ensure Iranian conservatives ability to weather any reforms unacceptable to the Supreme Leader.

## 2. Thermidor

It was during the Iranian Thermidor period following the death of Khomeini that much of the conservatives' ability to resist undesired change formalized. Aided in part by a cooperative and thankful national government, the beginnings of "privatization," its capabilities and experience from the Iran-Iraq War, the IRGC and its subsidiary companies found themselves very well situated to cement their influence with both the populace and the economy. With international trade following the Iran-Iraq War still in its infancy, the IRGC through its DIO companies and the Ghorb was able to gain significant domestic market shares that it might not have been able to cultivate had there been less international resistance, in the form of sanctions, to foreign investment in Iran.<sup>172</sup> Indeed, valuable opportunities for American engagement in Iran's booming

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<sup>171</sup>As seen in the Iran-Contra Affair, discussed in Chapter II.

<sup>172</sup>Wehrey et al., *The Rise of the Pasdaran*, 59.

energy industry were lost as political expediency in the United States triumphed over possible engagement with Iran. The Thermidor period also saw increased domestic corruption, in no small part due to the centralization and inefficiency of the IRGC's companies. This economic corruption led to public perceptions of governmental corruptions, perceptions that aided in the development of the Iranian reform movement as people yearned for more transparency in government after over a decade of deprivation. However, there is little empirical evidence that sanctions had any measurable effect on the development of the Iranian reform movement and this thesis has established that the reform movement appears to have been a completely internal development, born of the Iranian people's desire for transparency in government, increased civil society, and personal civil rights—all long denied as the conservative Iranian clergy who supported Khomeini's concept *velayat-e faqih* sought to establish a government faithful to their version of Islamic government. Along with the effects of sanctions on the Iranian economy in the post-revolutionary period, sanctions during the Thermidor period did not immediately influence Iranian domestic politics, but rather further tilted the economic framework in favor of the IRGC and its industries.

### **3. Reform and Conservative Resurgence**

Khatami's stunning presidential election in 1997 was a huge opportunity for both the United States and Iran. Khatami and the reform movement were in favor of expanded international engagement, and in fact, their internal domestic policy goals relied in large part on an effective and productive foreign policy. However, in dealing with the United States and the West Khatami was not the sole voice of Iran. The Supreme Leader, leery of interaction with the Great Satan, actively and passively through Iranian institutions answerable to him, stymied the ability of the Iranian government to react positively to American overtures but did allow for increased regional dialogue.<sup>173</sup>

The main obstacle to the reform movement's agenda was not even the effects of sanctions but the very nature of Iran's governmental structure. While the presidency and the parliament had significant power, no real change was possible without the consent of

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<sup>173</sup>Chubin, *Whither Iran?* 22.

the Supreme Leader through governmental institutions like the Guardian Council, Expediency Council, and judiciary answerable or appointed by him. Informally, institutions like the IRGC and *Basij* militias continually and publically criticized the reformist movement with the tacit support and approval of the Khamenei-appointed judiciary. Elections were not free and fair due to mass candidate nullification by the Guardian Council. Sanctions were a factor in Iran's economy, but not in the way that was intended by the United States. Instead, sanctions became instrumental towards reinforcing the informal sources of conservative power by limiting foreign desire and ability to participate in the Iranian market.

As the IRGC and its affiliated industries became more economically powerful, and the Iranian public did not feel the economic pressure intended by sanctions, the IRGC was able to slowly influence the Iranian electorate via public works and expansion of its penetration of Iranian society via the *Basij* militia network. While conservatives were working to influence the public, the *bonyads* also exerted influence on the public by their donations and support of the Iranian populace. As the Iranian populace saw little delivery by reformists on their promises, the populace grew increasingly disenchanted.

The straw that broke the camel's back was Iran's inclusion in the "Axis of Evil." In a single speech, President Bush completely alienated the most important target audience of any effort to normalize relations: the Iranian conservative clergy who rule Iran. Nearly completely discrediting reformists' attempts to normalize relations, the United States' new position regarding Iran's status in the world forced reformists to abandon their previous international engagement goals, lest they be completely barred from Iranian politics by the conservative institutions within the Iranian governmental system capable of it. Holding overwhelming economic and political influence, conservative elements like the IRGC increased their visible opposition to the reform movement. In the 2004 parliamentary elections, and the 2005 presidential election, the Iranian electorate was ready for a change and when deprived of reformist candidates, they voted for the candidates available deemed most likely to provide change—the conservative candidates.

#### **4. Summation**

From the empirical evidence, in response to this thesis' research question regarding sanctions and their effect on Iran's domestic politics, there is support for all three of this thesis' hypotheses. However, a combination of hypotheses one and three is the most satisfying as there is more evidence of the effects of sanctions creating the economic framework by which conservatives created and maintained their power base and influence and evidence of the effects of sanctions on discrediting the reform movement, mainly by denying it the international engagement which would have been crucial towards the success of the reform movement. While there is also evidence for this thesis' second hypothesis of conservative elements within the Iranian governmental structure conducting international unacceptable behavior in regard to support for terroristic organizations and advancement of Iran's nuclear program, it is a not a satisfying hypothesis due to the reform movement's support of the Islamic Revolution, its exportation, and Iran's sovereign right to develop a nuclear program. While individuals within the reform movement may have wished, and even instituted, limited suspensions of international unacceptable behavior, the structure of Iran's government precluded them from openly repudiating that behavior or risk being completely shut out of participation in Iranian government by conservative-dominated institutions legally empowered to maintain the Islamic Revolution.

#### **B. RECOMMENDATIONS FOR THE UNITED STATES' FUTURE ENGAGEMENT WITH IRAN**

To put it succinctly, U.S. sanctions against Iraq between the period between 1979 and 2005 were ineffective and reinforced the power of those within the Iranian governmental structure most opposed to interactions with the United States. To expand on that statement, one can see the lack of sanctions' effectiveness in the lack of true pressure on the Iranian public and government. Economically, Iranian trade did suffer slightly in the 1990s due to the effect of sanctions, but the overall effect of sanctions between 1994 and 2000 was loss of less 0.11% of Iranian GDP.<sup>174</sup> There was little to no

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<sup>174</sup>Torbat, "Impacts of the US Trade and Financial Sanctions on Iran," 415.

economic pressure or deprivation to the Iranian public as the Iranian government was able to maintain subsidies on commodities and there is even evidence that the IRGC facilitated smuggling rings in Iran bringing in Western goods, further lessening the impact of sanctions.<sup>175</sup>

Sanctions in the 2000s have had more effect as the international community has worked in concert to prevent the proliferation of nuclear materials in the post-9/11 world. As Iran continues to flout international norms, it has been subjected to increasingly severe economic sanctions but the regime in Tehran still shows no sign of weakness even in recent elections as the Council of Guardians and other conservative institutions have been able to stifle dissent, and even the Supreme Leader weighing on domestic politics as he did in the 2008 Iranian presidential election. It is understandable that neither the West nor Iran has any great reason to trust one another, but the cycle of increasing sanctions has so far not yielded appreciable results, neither in attempting to affect Iran's ability to develop a nuclear program nor on exerting overwhelming financial pressure on the Iranian electorate.

As a result, it appears clear that a new paradigm is required in engaging Iran. For this to occur, all parties must accept the following realities: 1) The United States cannot afford to project its power in the Middle East indefinitely. The cost of maintaining its overwhelming military dominance worldwide is increasing difficult. The rise of powers such as China, India, and Russia with the decline of military power of NATO will eventually leave the United States and its allies in a precarious situation. It is in our best national interests to begin the process of limiting our exposure to as many potential conflict zones as possible in order to maintain our quantitative edge worldwide.

2) It is in the best interest of all parties involved to reduce tensions in the Middle East. With the advent of the 24-hour news cycle, every newsworthy development is

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<sup>175</sup>Khalaji, *Iran's Revolutionary Guards Corps, Inc.*, accessed May 17, 2012.

Julian Borger and Robert Tait, "The Financial Power of the Revolutionary Guards," *The Guardian*, February 15, 2010, accessed May 17, 2012. <http://www.guardian.co.uk/world/2010/feb/15/financial-power-revolutionaryguard>.

repeatedly broadcast and sensationalized, destabilizing energy markets. Effective engagement with Iran will lead to a decline in regional tensions, which will in turn serve to diminish potential economic spikes.

3) While democratization in the Middle East appears to be on the rise, especially with the Arab Spring, American credibility as a partner is seriously compromised due to its history with Iran. A sincere and frank acknowledgement by the United States of its role in Iran's history and a unilateral gesture of diplomatic nature, such as easing of certain sanctions, is required to engage Iran. It will not happen overnight, but there must be a basis of understanding between the two nations for any progress to occur. One of the biggest obstacles to progress is the Western objection to Iran's nuclear program. It is time to acknowledge that Iran has a nuclear program and is entitled to it as a sovereign nation. It is the threat of foreign objections that is partially to blame for how Iran developed its nuclear program. As long as the regime sees a hostile foreign environment, seemingly intent on continually threatening the regime's existence, they will continue to act outside of international norms. The first step to coopting Iran's government is to engage it and attempt to influence change through soft power.

### **C. CONCLUSION**

Sanctions will always be the initial “go-to” diplomatic tool when dealing with a non-compliant state. In many situations, merely the threat of economic repercussions is enough to convince a state to cease internationally unacceptable behavior. However, the use of sanctions in cases where the target state possesses significant economic influence, especially as related to energy commodities, must be carefully considered. The international economy is a zero-sum game and there will always be an outlet. Sanctions may affect transactional costs, but in the face of a determined target who believes it is facing an existential threat, transactional costs are not enough to affect change. Such is the case in Iran.

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